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ABSTRACT

Funding public schools is one of the most important functions of states in the United States, provinces in Canada, and local governments in both countries. These two volumes present descriptive information about how state and provincial school-finance systems operated during 1993-94. The volumes consist of two major parts: United States Overview and Canadian Overview which provides an extensive overview of the school-finance systems in the United States and Canada, and State Descriptions and Provincial Descriptions, consist of descriptions of the school-finance programs in all 50 states in the United States, and 11 provinces in Canada. The overview section provides information on school-revenue patterns, approaches to school funding, significant changes in basic-support aid since 1990-91, state-imposed limitations on school taxes and spending, Canadian school-finance plans, and highlights of state descriptions. A users' guide at the beginning of Volume 1 illustrates a variety of uses for the school-finance information: (1) information available for each state or province; (2) state- and province-level users; (3) uses at the federal level; and (4) local-level uses. Volume 1 contains information on states from Alabama through Montana, and volume 2 presents information on Nebraska through Wyoming and the Canadian provinces. A list of state and provincial education department contacts, 25 tables, and 4 figures are included. The best use of the volumes is to understand the range of options used in the school-finance systems in the states and provinces, to determine the general tendencies and exceptional practices for a variety of school-finance issues, and to learn about standardized information on other state and provincial programs. (LMI)

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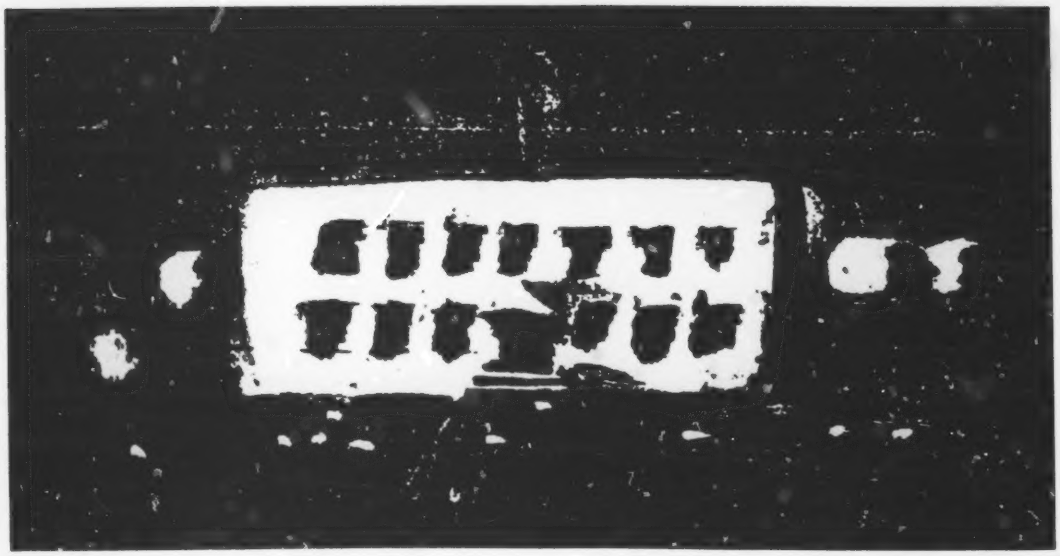
1993-94
Volume One



EA 027 111
Volume 1

American Education Finance Association

Center for the Study of the States
The Nelson A. Rockefeller Institute of Government

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PUBLIC SCHOOL FINANCE PROGRAMS OF THE UNITED STATES AND CANADA

1993-94

Volume 1

Compiled and Edited by

Steven D. Gold
David M. Smith
Stephen B. Lawton

American Education Finance Association

and

Center for the Study of the States
The Nelson A. Rockefeller Institute of Government
State University of New York

1995

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CONTENTS

Volume 1

List of Tables vi
List of Figures vii
About this Book viii
Acknowledgments ix

User's Guide 1
Where to Find It 7

United States Overview

Overview of School Revenue Patterns 9
Overview of Approaches to School Funding 23
Highlights of State Descriptions 33
Overview of Significant Changes in Basic Support Aid Since 1990-91 65
State-Imposed Limitations on School Taxes and Spending 69

Canadian Overview

Overview of Canadian School Finance Plans 81

State Descriptions

Alabama 89
Alaska 105
Arizona 117
Arkansas 127
California 139
Colorado 157
Connecticut 167
Delaware 179

5

Florida 187
Georgia 199
Hawaii 209
Idaho 219
Illinois 227
Indiana 241
Iowa 253
Kansas 265
Kentucky 279
Louisiana 293
Maine 303
Maryland 315
Massachusetts 325
Michigan 333
Minnesota 347
Mississippi 367
Missouri 381
Montana 387

Volume 2

Nebraska 397
Nevada 411
New Hampshire 421
New Jersey 427
New Mexico 439
New York 451
North Carolina 473
North Dakota 485
Ohio 495
Oklahoma 511
Oregon 521
Pennsylvania 529

Rhode Island 539
South Carolina 547
South Dakota 565
Tennessee 571
Texas 587
Utah 599
Vermont 607
Virginia 621
Washington 633
West Virginia 645
Wisconsin 661
Wyoming 675

Provincial Descriptions

Alberta 683
British Columbia 693
Manitoba 705
New Brunswick 717
Newfoundland and Labrador 719
Northwest Territories 727
Nova Scotia 729
Ontario 735
Prince Edward Island 753
Québec (En Français) 761
Quebec (In English) 767
Saskatchewan 773

State and Provincial Education Department Contacts 783
About the Editors 787

TABLES

1. Outline of Each State/Province Description 2
2. Level and Composition of School Revenue, 1993-94 10
3. School Revenue Summary, 1979-80 to 1994-95 14
4A. Real State-Local Revenue per Pupil, 1981-82 to 1992-93 16
4B. Real State Revenue per Pupil, 1981-82 to 1992-93 17
4C. Real Local Revenue per Pupil, 1981-82 to 1992-93 18
5. Earmarking of State Tax Revenue for K-12 and Higher Education, FY 1993 20
6. Classification of 1993-94 Basic State Support Programs 24
7. Classification of 1993-94 Basic Support Allocation Units 26
8. Classification of 1993-94 Basic Support Local Fiscal Capacity Wealth Measures 27
9. Basic Support Programs: State Contribution 38
10. Basic Support Programs: Local Contribution 44
11. Capital Outlay and Debt Service Programs 48
12. Transportation Programs 53
13. Special Education Programs 57
14. Funding for Selected Categorical Programs 61
15. Teacher Retirement Programs 63
16. Tax and Expenditure Limitations on School Spending or Revenue 70
17. State-Imposed Overall Property Tax Rate Limitations 71
18. State-Imposed Specific Property Tax Rate Limitations 72
19. State-Imposed Limitations on Property Tax Revenue (Levy) Increases 74
20. State-Imposed Limitations on General Revenue Increases 76
21. State-Imposed Limitations on General Expenditure Increases 76
22. State-Imposed Limitations on Assessment Increases 77
23. Full Disclosure/Truth-In-Taxation Provisions 78

FIGURES

1. Annual Growth of Inflation-Adjusted Total School Revenue Per Pupil, 1981 to 1995 12
2. Annual Growth of Inflation-Adjusted State and Local School Revenue Per Pupil, 1981 to 1995 12
3. Annual Growth of Inflation-Adjusted Federal School Aid Per Pupil, 1981 to 1995 13
4. Annual Change of Elementary-Secondary School Enrollment, 1981 to 1995 and Projections through 2000 13

ABOUT THIS BOOK

Funding public schools is one of the most important functions of states in the United States, provinces in Canada and local governments in both countries. Every state and province has a unique system of school finance. These books respond to the great demand for descriptive information about how those school finance systems operate.

These volumes represent the fifth edition in a series on *Public School Finance Programs* that was originally published by the U.S. Department of Education for 1976-77 and 1978-79. The third edition of the series, dealing with 1986-87, was published by the American Education Finance Association (AEFA) in cooperation with Virginia Polytechnic Institute and State University. The 1986-87 book went beyond the previous ones by including descriptions of how schools are financed in each Canadian province. The fourth edition, for 1990-91, was jointly published by the Nelson A. Rockefeller Institute of Government and the American Education Finance Association.

These volumes update the previous ones by describing school finance programs in 1993-94. In Colorado and Michigan, where the 1993-94 programs have been largely superseded by major reforms subsequently enacted or implemented, exceptions are made, with the description primarily dealing with post-1993-94 provisions. In Wyoming, the description is for 1992-93.

The purpose of this effort is description, not prescription. As discussed in the User's Guide that follows, it should be helpful to persons and groups interested in developing new education initiatives by describing approaches in other states, but no effort is made here to say how reforms should be designed.

These volumes consist of two major parts. The first part provides an overview of the school finance systems in the two countries. The overview draws primarily on information in the state and province descriptions in the second part of the books, but it is supplemented by information from other sources where that enhances the discussion of school finance systems.

The second part of the volumes consists of descriptions of the school finance programs in all 50 states and eleven provinces. Because no description was obtained for Prince Edward Island, the 1990-91 description is reprinted for that province. The authors of the state and province descriptions are a diverse group, including education department officials, faculty members at universities, legislative staff, and others. Each is an authority on the school finance programs of his or her state or province.

Readers are cautioned that not all of the information in the state descriptions is comprehensive and consistent. The editors devoted considerable effort to working with the authors of the state and province descriptions to fill in gaps and correct questionable data, but resources did not permit exhaustive verification of all data. That is one reason why in some cases information from secondary sources is used in the overviews.

Readers should note that at the end of the book addresses and phone numbers are provided of sources for additional information in the education department of each state and province. The Center for the Study of the States does not have additional detailed information beyond that included in these volumes.

Division of Responsibilities

The editors worked together as a team in preparing these books. The design of the project and instructions to the authors were developed by Steven Gold, who worked closely with the other editors in all phases of the project. David Smith was primarily responsible for editing state descriptions and most communications with the authors in the United States throughout the project. Stephen Lawton and François Gendron were responsible for all aspects of the Canadian overview and descriptions. Elizabeth Davis and Sarah Ritchie made important contributions to the overview section.

10

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The editors of these books gratefully acknowledge the assistance of the authors of the individual state and province descriptions, without whose contributions this project would not have been possible.

Financial assistance was received from three sources: the American Education Finance Association (AEFA), which lent money to help get the project underway; the Research Foundation of the State University of New York, which advanced funds to cover costs before funding was received from other sources; and the Ford Foundation, whose support for the State Finance Project of the Center for the Study of the States was invaluable.

The entire staff of the Center for the Study of the States assisted with this project. Elizabeth Davis, Sarah Ritchie and Mischelle Valcourt helped with preparation of material for the United States Overview, communications with authors, and in other ways.

François Gendron of Statistics Canada co-authored the overview section for Canada with Stephen Lawton. At the Ontario Institute of Studies in Education, Rouleen Wignall provided support funded in part by a transfer grant from the Ontario Ministry of Education.

Leanna Stiefel provided valuable advice on how to structure the book and the instructions to the authors and, along with Robert Berne, co-authored the *User's Guide* that follows.

Michael Cooper, Director of Publications for the Nelson A. Rockefeller Institute of Government, was responsible for desktop publishing and printing arrangements.

The cover illustration was drawn by Bruce Holdeman.

Finally, the Executive Director of AEFA, George Babigian, and the Board of Directors of the American Education Finance Association were extremely helpful in bringing the project to fruition. The editors particularly appreciate the assistance of the Presidents of AEFA while the project was underway, Philip Kearney, David Honeyman and Mary McKeown.

Other members of the 1994-1995 AEFA Board of Directors include: Catherine P. Clark, Faith E. Crampton, William J. Fowler, Jr., Mary F. Fulton, Stephen Jacobson, Lynn M. Moak, Mary T. Moore, Robert D. Hickman, Eugene P. McLoone, Chris Malkiewich, Michael O'Loughlin, Neil Theobald, Kathleen C. Westbrook, Terry Whitney, R. Craig Wood. Designees of AEFA's Sustaining Members were Thomas Shannon (National School Boards Association), Will Myers (National Education Association), Paul Houston (American Association of School Administrators, Jewell Gould (American Federation of Teachers), and Don Tharpe (Association of School Business Officials International). In 1995-96, five new members joined the Board of Directors: Patrick Galvin, Carolyn Herrington, Maureen McClure, John Schneider, and Stephanie Stullich; and Lawrence O. Picus became president-elect.

Steven Gold
David Smith
Stephen Lawton

USER'S GUIDE

Robert Berne and Leanna Stiefel
Robert F. Wagner Graduate School of Public Service
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These volumes are designed so that they will be valuable to a wide audience that includes users at the federal, state, and local levels in both the United States and Canada. Some of the readers will be experts in the concepts and practices of school finance; others will be less knowledgeable and will be using these volumes to increase their understanding of school finance. More specific examples of expected users include state or provincial education departments, governors' offices, legislators and their staffs, state commissions, Congress and the U.S. Department of Education, school boards and school district personnel, advocacy and citizen groups, and the research community.

This guide presents illustrations of a variety of uses for these volumes' school finance information. Section one describes the type of information available for each state or province. The next four sections are organized by broad categories of user. Section two discusses examples pertinent to users at the state and province levels; section three addresses examples of interest at the federal level; section four looks at possible uses by individuals and groups at the local levels; and section five provides illustrations relevant to the research community. In section six, we conclude and present some cautions about using these volumes' data.

1. *Information Available for Each State and Province*

Each state or provincial description is organized according to the outline shown in Table 1. In addition, two introductory sections — *Overview of Approaches to School Funding* and *Highlights of State Descriptions* — contain 10 tables that allow readers to find all states where the school finance system has particular features of interest to them. For example, from Table 6 a reader could identify all states that use a guaranteed tax base as part of their finance system. So it is possible to access the kinds of information that are used to answer a variety of policy questions, some of which are illustrated in the sections to follow.

Readers should find the section that follows this User's Guide, *Where to Find It*, very helpful in locating the information they seek. For each major topic covered in these volumes, *Where to Find It* tells where it is covered in the Introduction and also where it is mentioned in each State Description.

2. *State- and Province-Level Users*

A likely common purpose for state or province-level users is the comparison of their state/province finance systems to those of other states and provinces. Comparisons generally are sought when a state or province is considering changes in its own system, when it wants to assess how novel or common features of its system are, or when it wants to look at the prevalence of non-traditional programs. Examples of how these volumes could be used in each of these cases are developed.

There are any number of reasons why states and provinces periodically reassess the way they are financing their public schools. Most recently, American states have renewed their interest in designing systems that promote equity, partly in response to activity in state courts. As of August 1995, the school finance systems of 23 states were being

Table 1
Outline of Each State/Province Description

I. General Background
    State/Province support
    Local support
    Funding summary, 1993-94

II. The Basic Support Program
    Funding, 1993-94
    Nature of program
    Allocation units
    Local fiscal capacity
    How formula operates
    State/Province share
    Local share
    Weighting procedures
    Adjustments for special factors
    Aid distribution schedule

III. Transportation
The following subheadings are repeated, where possible, under all subsequent headings:

    Funding in 1993-94
    Description
    State/Province and Local shares
    Extent of participation

IV. Capital Outlay and Debt Service

V. Teacher Retirement

VI. Special Education

VII. Compensatory Education

VIII. Gifted and Talented Education

IX. Bilingual Education

X Other Categorical Programs

XI. Aid for Private Schools

XII. State/Provincial Programs for Early Childhood Education

XIII. Local School Revenue

XIV. Tax and Spending Limits

XV. State/Provincial Earmarked Revenues

XVI. Special Topics

challenged in the courts.[1] In addition, over the last decade, a desire to create more accountable and efficient education systems has led states to look at the incentives that their finance systems offer for such activity. Sometimes the staff work for a study of a state's system is performed by a commission;[2] other times the state education department or legislative staff, or both, analyze the system. Several Canadian provinces, faced with severe economic problems and political demands for equity, have studied or implemented new school finance systems.[3] Some of the issues that might arise and that could be informed by the data in these volumes are set forth below.

States and provinces are universally concerned about how to address uncontrollable and above-average costs that school districts incur. Such costs commonly arise as a result of several factors including high concentrations of students with special needs (language minority, handicapped, and poor); diseconomies of scale that small districts experience when they attempt to provide a variety of academic subjects or that geographically large districts incur in their transportation programs; and prices of resources that vary across the state or province but are neither voluntarily paid by districts nor compensated by higher quality. There are a variety of ways that the states and provinces have found to address the cost factors and when thinking about revisions to a school finance system; a jurisdiction might want to know the range of possibilities. These volumes have considerable information relevant to how states address uncontrollable costs under categories like categorical programs, student weights, price indices, and cost indices. In addition to identifying the number of states and provinces that use each method, in some cases one could also find the percentage of aid that is used to address the concerns. And, of course, by reading the description, one could obtain details on what groups of students are weighted and how, what kinds of categorical aid are given out and how much money is involved, and how the price and cost indices are estimated and used.[4]

A second example of interest to many jurisdictions is the possibility of financing early childhood and pre-kindergarten education through the school finance system.[5] There is a sizable national debate about whether the schools are the appropriate place for early childhood education. While not taking sides in the debate, these volumes provide information about what the states and provinces are now doing through their school financing and the extent of the dollars provided.

A third example of interest to many states and provinces is the way in which teacher retirement and benefit systems are financed. For example, if there is a state- or province-wide system, does each district make a contribution or does the state/province contribute as part of its aid? If the state or province contributes, is the contribution counted as part of the district's aid and is there some form of equalization for the contribution?

A fourth example focuses on the possibility for a state or province to research the extent and nature of innovative school finance programs that are used only in a small number of jurisdictions. How many states and provinces provide some support for private school education? How often does the support go beyond transporting children or providing services for special education students? Is there any other direct support, or does most support occur indirectly through the tax system? By reading the section on "Aid for Private Schools," the reader can obtain information about what other jurisdictions are doing. The support of religious school systems in several Canadian provinces reflects that nation's history and its lack of separation between church and state.

A fifth example involves the use of outcome measures in school aid formulas. One study relied heavily on the 1990-1991 edition of these volumes to demonstrate that such measures are in fact widely employed by states.[6]

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[1] According to Mary Fulton of the Education Commission of the States, litigation was pending in Alabama, Alaska, Arizona, Arkansas, California, Illinois, Louisiana, Maine, Maryland, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Vermont, West Virginia, Wisconsin and Wyoming. See also, John Dively, "Status of School Finance Constitutional Litigation" (Normal, IL: Center for the Study of Educational Finance, Illinois State University, July 1991); and David L. Franklin and G. Alan Hickrod, et al., "The Constitutionality of the K-12 Funding System in Illinois," Volumes I and II (Center for the Study of Educational Finance, Illinois State University, May 1987 and July 1990).

[2] For example, see the *Report* of the New York State Temporary Commission on the Distribution of State Aid to Local School Districts (Salerno Commission), December 1988.

[3] See, for example, Government of Newfoundland and Labrador, Royal Commission of Inquiry into the Delivery of Programs and Services in Primary, Elementary, and Secondary Education, *Our Children, Our Future* (March 1992).

[4] State using cost indices are listed in the Overview of Approaches to School Funding of this book. For background on the conceptual and practical development of cost and price indices, see David H. Monk and Billy D. Walker, "The Texas Cost of Education Index: A Broadened Approach," *Journal of Education Finance*, vol. 17, no. 2 (Fall 1991), pp. 172-192.

[5] Norton W. Grubb, "Public School Provision of Child Care: Costs and Consequences" (Child Care Action Campaign, 1988).

[6] David Monk, "Incorporating Outcome Equity Standards into Extant Systems of Education Finance," in *Outcome Equity in Education*, ed. Robert Berne and Lawrence O. Picus (Corwin Press, 15th Annual AEFA Yearbook, 1994).

A final type of user of state/provincial-level analysis includes advocacy and interest groups that typically take a particular point of view, consistent with their mission. Information helpful in developing a new or expanded proposal is provided by these volumes. They are an excellent place to begin the search for other jurisdictions with a similar program. The following are examples of programs or issues on which advocates could find useful information: the nature and extent of funding for pre-kindergarten experiences; the existence of tax and spending (or tax relief) programs that work through or in conjunction with school financing; alternative ways to finance capital programs; alternative pupil weights; and possibilities for private school financing.

Special education is also an area where there are advocacy groups whose objectives often include obtaining additional funding for unmet special education needs. In the absence of absolute funding standards and alternative funding methods for special education children, state and provincial policy makers can be influenced by practices elsewhere, and the data needed for such arguments can be found in these volumes.

A different type of interest group represents particular staff in the education system such as teachers, principals, and librarians. In some cases these groups are unions, in other cases professional organizations that do not have the formal status of unions. These groups often are heavily involved in funding debates and many of the sections of these volumes have the potential to be relevant to questions of finance and compensation.

3. Uses of Interest at the Federal Level

Currently, in both the United States and Canada, the federal government's interest in school finance is separate from how each state or province finances its education system. There are some areas where knowledge of state and provincial programs can help federal governments to assess whether their funds are being leveraged at the state/provincial level. And there is at least one small program in the U.S. — Federal Impact Aid — that does explicitly take into account within-state education finance equity. In these two cases, these volumes can be of help as a starting point in analysis.

By reading the section on compensatory education, it will be possible to determine if a state or province has its own compensatory education program. U.S. states' mechanisms may be compared to the federal Chapter 1 allocation, to see whether the state uses Chapter 1 eligibles as the basis for allocation. Or, on the other hand, does the state take a different approach to compensatory education, and if so, how supportive of Chapter 1 objectives is that approach? We are not suggesting that the U.S. federal government would want to legislate the way states allocate their compensatory education dollars, but rather could see how widely accepted its approach is, and how much its own funds are being supplemented by additions from the states. Canadian federal equalization funds are allocated to provinces globally, so similar issues rarely arise.

Periodically the federal program funding allocation mechanism, such as Chapter 1, is reviewed and the approaches used at the state-level often are examined as potential improvements in the federal allocation scheme. For example, Chapter 1 is concerned with measures of poverty and achievement, factors that are commonly used as part of state aid systems. Also, the inclusion of fiscal capacity measures in Chapter 1 funding has been debated and the states provide many examples of how fiscal capacity can be measured. Ironically, although the Canadian federal government used over 20 indicators to assess provincial fiscal capacity to determine its general purpose equalization grants to provinces, all provinces using the property tax to fund education measure fiscal capacity with assessed valuation per pupil.

U.S. Federal Impact Aid has as part of its objective to promote equity within the states. If the federal government were to decide to standardize some of the measures that states use to calculate equity measures for the program's purposes, these volumes might be useful. As an example, one could see how each state weights its various special needs pupils and construct a vertical equity measure that allows states to use the weights of any state that is consistent with federal goals. These volumes could be the starting place for researching the range of possibilities that the states provide for weightings.[7]

4. Local-Level Users

Debates over school financing are no longer limited to the state and provincial level. Given the current levels of resource scarcity and the importance of state or provincial funding, it is essential for those who take a school district perspective to be knowledgeable about the intricacies of school finance at the state- and provincial-level. For many users of school finance information at the local level, these volumes can be an excellent source for understanding their own system and for learning about the alternative approaches in use elsewhere. For example, it is not unusual for parent groups to become involved in lobbying for additional funding for their district and this type of advocacy requires system-wide knowledge. Citizen groups, such as parents, would find the summary of their own jurisdiction's system useful as a way to become quickly knowledgeable about the intergovernmental context of funding for their particular district. Also, because school districts share a tax base with other general and special purpose governmental entities, advocacy groups connected to other local government units may need to become knowledgeable about school financing issues.

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[7] Robert Berne and Leanna Stiefel, "Equity Standards for State School Finance Programs: Philosophies and Standards Relevant to Section 5 (d) (2) of the Federal Impact Aid Program" (prepared for the U.S. Department of Education, May 1992).

There is a second, somewhat different use of comprehensive information on state school finance systems by users at the local level. In many districts, especially the larger ones, many of the issues that need to be addressed when dollars are distributed from the state or province to the districts are applicable to the distribution of dollars from the districts to schools within the district. For school district officials, parents, advocacy groups, and professional organizations, there are questions concerning specific programs such as bilingual education, programs for gifted and talented, compensatory education, and special education where knowledge of state or provincial funding methods and features can inform the debate at the local level. In addition there are questions at the local level such as how should the funding vary across grade levels and how should categorical dollars mesh with general education dollars that can be answered with information from the state or provincial level.

5. Issues of Interest to the Research Community

Researchers have been consistently interested in the determinants of the cross-sectional variations of features as well as outcomes of school finance systems.[8] For example, what accounts for the differences in equity (variously measured) across the states and across the provinces; what accounts for whether a state or province "reforms" its system; what accounts for a legal challenge to the system; and how and why does school system finance differ between the U.S. and Canada?[9] The state and provincial share of financing is a popular independent variable that researchers hypothesize should account for variation in outcomes such as equity or the presence of a court case. Information on this variable could be found from the funding summary under section II or, for separate parts of the funding system, under sections labelled "state share." Variation in vertical equity might in part be due to the percentage of funding channelled through various categorical programs or the presence of a pupil weighting scheme that reflects a commitment to vertical equity. Researchers could also ask what accounts for large numbers of districts being "off formula?" Several of the possible explanatory variables include state or provincial share, type of formula, minimum funding levels, and use of categoricals. Information on these and other independent and dependent variables of concern to researchers is available in these volumes.

6. Conclusions and Limitations

Using examples, we have described a number of ways that the information in these volumes can be useful to many types of users at the local, state or provincial, and federal levels. While we are confident that this is the best information of its kind currently available, it is also important to note the self-reported nature of the information. Although the authors followed similar instructions and filled out their information in identical formats, it is not possible to achieve exact comparability. Unlike school district financial information that is audited when collected by states or provinces, this information has not been audited and the level of complexity of many of the programs is quite high. Thus, the meaning of specific terms may vary from state to state and from province to province, depending in part on the school finance "culture" and the way in which the funding scheme has operated. For example, the meaning of a term such as "districts off formula" can vary depending on how it is used in a state or province: in some cases it may mean no state or provincial aid and in others in may mean more or less than the amount that full implementation of the formula yields. In other cases, additional information may be needed to fully describe a feature of a state's or province's funding scheme. An example is in the area of property tax assessment and equalization where many jurisdictions use detailed procedures too lengthy to describe in these volumes.

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[8] See, for example, Robert Berne and Leanna Stiefel, "The Equity Effects of State School Finance Reforms: A Methodological Critique and New Evidence," *Policy Sciences*, Vol. 13, No. 1, February 1981: 75-98; Wayne Riddle, "School Expenditure Variations with the States," (Congressional Research Service, Library of Congress, 1990); Myron Schwartz and Jay Moskowitz, *Fiscal Equity in the United States*, 1984-85 (Washington, D.C.: Decision Resources Corporation, 1988).

[9] See, for example, Stephen B. Lawton, "Significant Features of Fiscal Federalism [in the U.S. and Canada]." Book Reviews. *Journal of Education Finance*, Vol. 12, No. 1, Summer 1988: 162-165.

The best use of these volumes is to understand the range of options used in the school finance systems in the states and provinces, to determine the general tendencies and exceptional practices for a variety of school finance issues, and to learn about standardized information on other state and provincial programs that can be pursued in more depth with authors, state and provincial education department staff, or other knowledgeable individuals from the state or province.

WHERE TO FIND IT

Subject	Introduction	State Descriptions
Assessment practices		XIII, XIV
At-risk students	Highlights (Table 14)	VII, IX, X, XII
Basic support	Highlights (Tables 9 & 10)	II
Bilingual education	Highlights (Table 14)	IX
Bonds	Highlights (Table 11)	IV, XIV
Capital spending	Highlights (Table 11)	IV
Compensatory education	Highlights (Table 14)	VII
Debt service	Highlights (Table 11)	IV
Earmarked state revenue	Overview of School Revenue	XV
Fiscal capacity (local)	Overview of Approaches (Table 8)	II, XIII, XIV
Foundation guarantee amounts	Highlights (Table 9)	II
Foundation programs	Overview of Approaches (Table 6)	II
Gifted and talented education	Highlights (Table 14)	VIII
Hold harmless provisions	Highlights (Table 9)	II
Income of residents	Highlights (Table 10)	II, XIII
Local school revenue	Overview of School Revenue	XIII
Pre-kindergarten education	Highlights (Table 14)	XII, VI
Private schools, aid for	Highlights (Table 12)	III, XI
Property tax	Overview of School Revenue Highlights (Table 10)	II, XIII, XIV
Pupil units	Overview of Approaches (Table 7) Highlights (Table 9)	II
Required tax rate	Highlights (Table 10)	II, XIII, XIV
School budgets, treatment of		XIII, XIV
Special education	Highlights (Table 13)	VI
State share of school revenue	Overview of School Revenue	
Tax and spending limits	Limitations on Local Taxes and Spending (Tables 16-23)	II, XIV
Teacher retirement	Highlights (Table 15)	V
Transportation aid	Highlights (Table 12)	III
Vocational education		VI, X

OVERVIEW OF SCHOOL REVENUE PATTERNS

The revenue of public elementary and secondary schools in the United States was $255.8 billion during the 1993-94 school year. Local school districts provided 46.8%, slightly more than the 46.0% from state governments. The federal government accounted for 7.2% of total school revenue.

As Table 2 shows, the level and composition of school revenue vary considerably from state to state.

- Revenue per pupil varied from $9,814 in New Jersey to $3,810 in Utah.
- The state share varied from 90.9% in Hawaii to 8.3% in New Hampshire.
- The local share varied from 88.9% in New Hampshire to 2.1% in Hawaii.
- The federal share varied from 16.6% in Mississippi to 2.8% in New Hampshire.

Table 2 also shows the state and local shares of school revenue with federal aid excluded. Usually, state government accounts for between 40% and 70% of nonfederal revenue, but there are 15 exceptions. In seven states the state government provided more than 70% of nonfederal revenue—Alabama, Alaska, Delaware, Hawaii, Kentucky, Washington, and West Virginia. At the other extreme, in eight states, the state government provided less than 40% of nonfederal revenue — Illinois, Massachusetts, Michigan, Nevada, New Hampshire, South Dakota, Vermont, and Virginia.

Updates for 1994-95 Year

In the year following the one that is the focus of this book, fiscal conditions varied widely among states. According to preliminary NEA estimates, total school revenue rose 4.7%, which was barely enough to offset enrollment growth and inflation. But school revenue rose considerably faster in several states. Eight states had increases in total school revenue of at least 7%: Alabama, Virginia, Ohio, Georgia, New Hampshire, Illinois, Delaware, and Kentucky. On the other hand, two states, Wyoming and Arkansas, had outright reductions in education revenue. Other states with increases of 2% or less included West Virginia, Montana, New Mexico, Vermont, North Dakota, and Rhode Island.

The most dramatic change in 1994-95 occurred in Michigan, where voters in March 1994 approved a 2-cent increase in the state sales tax as well as other tax increases in order to reduce property taxes. State aid also increased to provide property tax relief in Oregon, where voters in 1990 approved Measure 5, an initiative that lowered property taxes sharply. This measure was still being phased in during the 1994-95 school year.[1]

Changes over Time

The 1990s have generally not been a good period for schools financially. As Figure 1 shows, inflation-adjusted revenue per pupil stagnated in the 1992, 1993, 1994, and 1995 schools years. The increases in each of those years were smaller than in any of the years from 1980 to 1991. As Figure 2 shows, state revenue growth was particularly

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[1] In Oregon, NEA reports that the state share of school revenue rose from 41.0% in 1993-94 to 49.8% the following year, with a corresponding decrease in the local share. Michigan had not yet provided 1994-95 data when NEA published its report for that year.

Table 2
Level and Composition of School Revenue, 1993-94

	School Revenue	Including Federal Aid			Excluding Federal Aid	
	Per Pupil	Federal	State	Local	State	Local
New England	$7,145	5.1%	36.0%	58.9%	38.0%	62.0%
Connecticut	8,652	4.6%	39.5%	55.9%	41.4%	58.6%
Maine	5,957	7.0%	48.5%	44.4%	52.2%	47.8%
Massachusetts	6,754	5.5%	36.0%	58.5%	38.1%	61.9%
New Hampshire	6,380	2.8%	8.3%	88.9%	8.6%	91.4%
Rhode Island	7,016	4.5%	40.7%	54.8%	42.6%	57.4%
Vermont	7,204	5.2%	32.4%	62.5%	34.1%	65.9%
Mid Atlantic	8,262	5.5%	40.5%	54.0%	42.9%	57.1%
Delaware	6,696	9.1%	65.1%	25.8%	71.6%	28.4%
Maryland	6,526	5.6%	39.0%	55.4%	41.3%	58.7%
New Jersey	9,814	4.2%	41.5%	54.3%	43.3%	56.7%
New York	8,629	5.6%	39.2%	55.2%	41.5%	58.5%
Pennsylvania	7,526	6.2%	41.4%	52.5%	44.1%	55.9%
Great Lakes	6,135	6.2%	38.5%	55.3%	41.0%	59.0%
Illinois	5,793	8.2%	32.9%	58.8%	35.9%	64.1%
Indiana	5,950	5.2%	52.1%	42.6%	55.0%	45.0%
Michigan	6,840	5.7%	32.1%	62.2%	34.1%	65.9%
Ohio	5,699	6.2%	43.4%	50.4%	46.2%	53.8%
Wisconsin	6,706	4.4%	38.7%	56.9%	40.4%	59.6%
Plains	5,481	6.0%	43.4%	50.5%	46.2%	53.8%
Iowa	5,497	5.7%	48.4%	45.9%	51.3%	48.7%
Kansas	5,496	5.5%	49.7%	44.9%	52.5%	47.5%
Minnesota	6,113	5.1%	46.5%	48.5%	48.9%	51.1%
Missouri	5,232	6.6%	37.5%	55.9%	40.2%	59.8%
Nebraska	4,984	4.8%	39.1%	56.1%	41.0%	59.0%
North Dakota	4,761	11.5%	43.6%	44.9%	49.2%	50.8%
South Dakota	4,830	10.8%	25.3%	63.9%	28.4%	71.6%
Southeast	4,963	9.2%	52.8%	38.0%	58.2%	41.8%
Alabama	3,913	13.1%	65.4%	21.6%	75.2%	24.8%
Arkansas	4,411	9.4%	63.1%	27.5%	69.7%	30.3%
Florida	5,838	7.7%	49.8%	42.4%	54.0%	46.0%
Georgia	5,125	8.4%	49.4%	42.2%	54.0%	46.0%
Kentucky	4,932	10.2%	67.2%	22.6%	74.9%	25.1%
Louisiana	4,608	12.3%	53.6%	34.0%	61.2%	38.8%
Mississippi	3,806	16.6%	53.8%	29.6%	64.5%	35.5%
North Carolina	4,950	8.9%	63.8%	27.3%	70.0%	30.0%
South Carolina	4,924	9.6%	46.9%	43.5%	51.9%	48.1%
Tennessee	4,135	9.8%	48.9%	41.3%	54.3%	45.7%
Virginia	5,271	6.6%	34.2%	59.2%	36.6%	63.4%
West Virginia	6,007	8.2%	64.6%	27.2%	70.4%	29.6%
Southwest	5,204	8.6%	46.4%	45.0%	50.8%	49.2%
Arizona	4,957	8.9%	42.3%	48.9%	46.4%	53.6%
New Mexico	6,228	10.3%	61.8%	27.9%	68.9%	31.1%
Oklahoma	4,397	7.4%	63.3%	29.4%	68.3%	31.7%
Texas	5,303	8.5%	43.4%	48.1%	47.4%	52.6%
Rocky Mountain	5,107	6.8%	51.6%	41.6%	55.3%	44.7%
Colorado	4,966	5.8%	46.0%	48.2%	48.8%	51.2%
Idaho	4,027	8.1%	60.9%	30.9%	66.3%	33.7%
Montana	5,376	9.2%	53.8%	37.0%	59.3%	40.7%
Utah	3,810	7.1%	54.9%	38.0%	59.1%	40.9%
Wyoming	6,679	5.8%	52.2%	42.1%	55.3%	44.7%
Far West	5,524	8.3%	56.9%	34.8%	62.0%	38.0%
California	5,327	8.9%	54.9%	36.2%	60.3%	39.7%
Nevada	5,245	5.0%	36.0%	59.0%	37.9%	62.1%
Oregon	5,549	7.3%	41.0%	51.7%	44.3%	55.7%
Washington	6,140	5.9%	71.0%	23.0%	75.5%	24.5%
Alaska	8,189	12.6%	63.6%	23.8%	72.8%	27.2%
Hawaii	6,537	7.1%	90.9%	2.1%	97.8%	2.2%
United States	5,907	7.2%	46.0%	46.8%	49.6%	50.4%

Source: National Education Association, *1994-95 Estimates of School Statistics* (Washington, D.C., 1995), p. 38.

depressed, with decreases in real per pupil terms in 1992, 1993, and 1994. While local revenue rose faster than state revenue, it increased much more slowly than in the 1980s.

It is not surprising that school revenue was hurt by the recession of 1990 and 1991, but sluggish growth continued even after the economy began to expand again. There are two important explanations:

- Enrollments were growing 1.5% per year or more. This contrasts with enrollment decreases a decade earlier.
- Schools faced substantial competition for state support from Medicaid and corrections programs, both of which expanded their share of state resources.[2]

The anemic growth of school revenue in the early 1990s contrasts with what occurred in the previous decade, when revenue increased substantially. Between 1979-80 and 1990-91, total school revenue rose 35.1% in real dollars. Revenue per pupil increased even more, 36.6%. As Figure 1 shows, that increase occurred in fits and starts. Gains were relatively small during the recessions of the early 1980s.[3] A surge occurred after the 1981-82 recession ended and *A Nation at Risk* was published in 1983.

The financial roles of state and local governments have gone through three stages since 1980.

- At the start of the 1980s, local revenue rose faster than state revenue because state taxes are more sensitive to the economy, and this was a recession period.
- In 1985, 1986, and 1987, state aid rose faster than local revenue.
- Beginning in 1988, the state share of revenue fell as local revenue rose faster than state revenue for seven consecutive years.[4]

Figure 2 focuses specifically on changes in inflation-adjusted per pupil school revenue provided by state and local governments. State aid increases are more volatile than increases in local revenue, soaring to 7.3% in 1984-85 and 5.3% in 1985-86 but falling below 2% for nine of the years shown. By contrast, local revenue never rose more than 6.5% in any year and increased at less than a 2% rate in only six years.

Figure 3 shows annual changes in federal aid per pupil in real dollars. After a large decrease in 1981-82, reflecting President Reagan's initial success in cutting federal spending, federal aid for schools registered small increases in most years. The largest increases in federal revenue for education were in the 1991-92 and 1992-93 school years. It was not until 1992-93 that the real value of federal aid exceeded its level in 1980.

Most of the analysis in this section is based on per pupil revenues. It is essential to consider changes in enrollment in order to understand the significance of revenue shifts. As Figure 4 shows, enrollment fell through 1984-85, continuing a decline that started in 1972-73, and then began to rise steadily. In 1993-94, the number of elementary-secondary school pupils was 10.6% higher than it was in 1984-85. The National Center for Education Statistics projects that between 1994-95 and 1999-2000 enrollment will increase an additional 8.3%.[5]

Table 3 shows the data underlying the Figures discussed in this section. Tables 4A, 4B, and 4C show real revenue per pupil annually from 1982 to 1993.

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[2] Steven D. Gold, ed., *The Fiscal Crisis of the States* (Washington, D.C.: Georgetown University Press, 1995).

[3] The percentage changes of real per pupil revenue for 1981 and 1982 in Table 3 are considerably greater than those reported in the previous edition of this study. The difference is explained by a change in the price index used to deflate revenue. This edition uses the implicit deflator for state and local government spending, while the previous edition used the Consumer Price Index. After 1981, the two indices provide relatively similar measures of the cumulative rise in prices, but they differ more in terms of year-to-year changes.

[4] The preliminary estimates for 1994-95 suggest that state revenue rose slightly faster than local revenue, but this conclusion could be reversed by later revisions. Preliminary estimates are often subject to substantial changes. Fourteen states had not yet provided data as of the publication of NEA's 1994-95 estimates. One of those states was Michigan, where the state share rose very sharply. When it is included in the national total, the average state share is very likely to have increased.

[5] U.S. National Center for Education Statistics, *Projections of Education Statistics to 2005* (Washington, D. C., January 1995), p. 8.

Figure 1. Annual Growth of Inflation-Adjusted Total School Revenue Per Pupil, 1981 to 1995

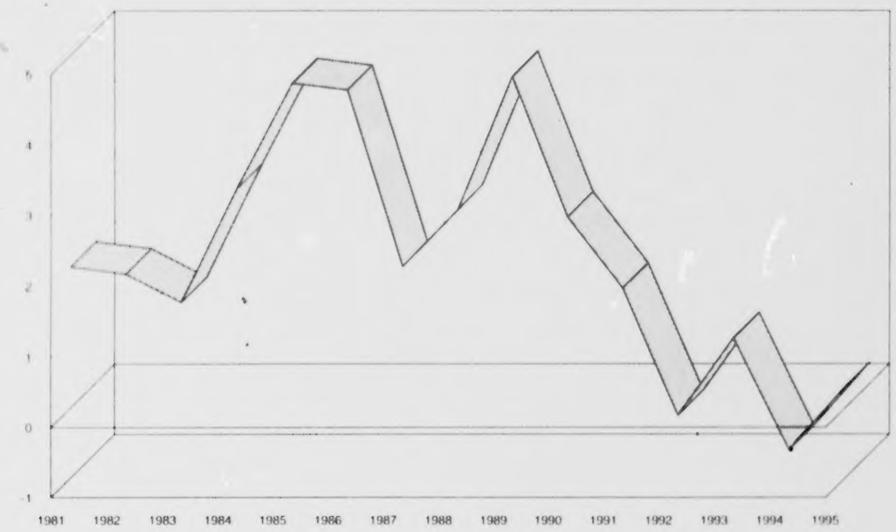

Figure 2. Annual Growth of Inflation-Adjusted State and Local School Revenue Per Pupil, 1981 to 1995

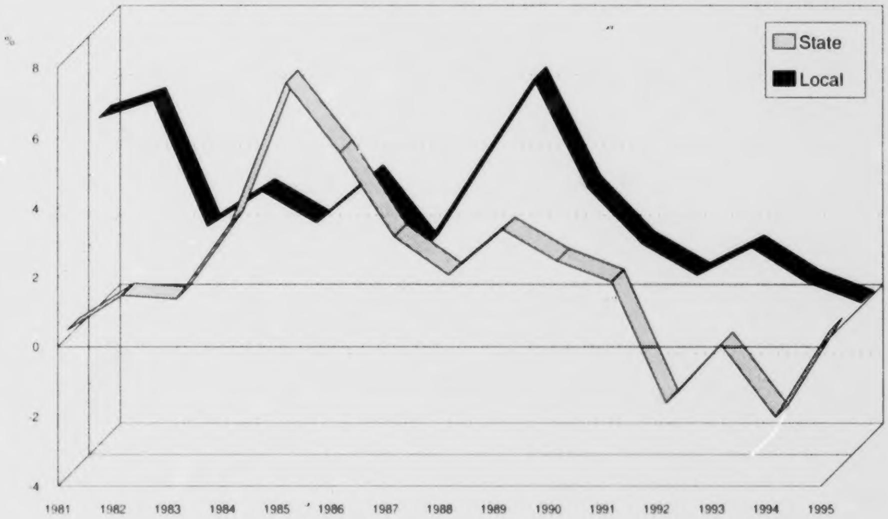

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Figure 3. Annual Growth of Inflation-Adjusted Federal School Aid Per Pupil, 1981 to 1995

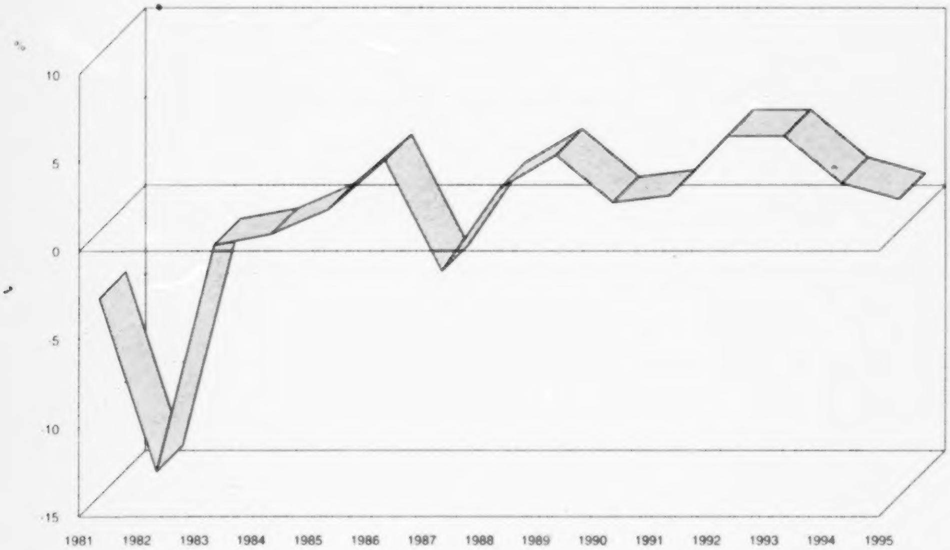
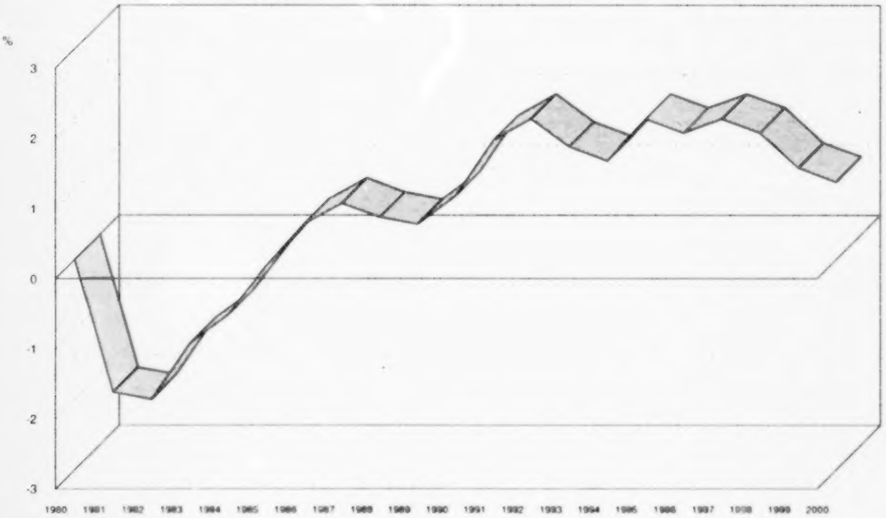


Figure 4. Annual Change of Elementary-Secondary Enrollment, 1981-1995 and Projections Through 2000



Source: 1981-95 — National Education Association, *Estimates of School Statistics*; 1994-95 — National Center for Education Statistics, *Projections of Education Statistics to 2005.*

Table 3
School Revenue Summary, 1979-80 to 1994-95

Total revenue in nominal dollars
(Millions of dollars)

Year	*Total*	*Federal*	*State*	*Local*
1979-80	$97,635	$9,020	$47,929	$40,686
1980-81	106,553	9,285	51,376	45,892
1981-82	113,998	8,419	54,573	51,006
1982-83	120,485	8,691	57,449	54,345
1983-84	128,875	9,005	61,611	58,259
1984-85	141,013	9,533	69,107	62,373
1985-86	153,807	10,351	75,935	67,521
1986-87	163,767	10,553	81,542	71,672
1987-88	176,266	11,308	86,871	78,087
1988-89	193,234	12,342	93,796	87,096
1989-90	208,656	13,184	100,787	94,685
1990-91	223,896	14,178	108,021	101,697
1991-92	234,923	15,704	111,348	107,871
1992-93	247,436	17,251	115,855	114,330
1993-94	255,769	18,423	117,646	119,700
1994-95	267,749	19,587	123,086	125,076

Inflation-adjusted revenue
(1987 dollars)

Year	*Total*	*Federal*	*State*	*Local*
1979-80	$144,004	$13,304	$70,692	$60,009
1980-81	144,185	12,564	69,521	62,100
1981-82	143,937	10,630	68,905	64,402
1982-83	144,380	10,415	68,842	65,123
1983-84	147,623	10,315	70,574	66,734
1984-85	154,281	10,430	75,609	68,242
1985-86	162,073	10,907	80,016	71,150
1986-87	166,769	10,746	83,037	72,986
1987-88	172,556	11,070	85,043	76,443
1988-89	181,526	11,594	88,113	81,819
1989-90	188,148	11,888	90,881	85,379
1990-91	194,608	12,323	93,890	88,394
1991-92	198,247	13,252	93,965	91,030
1992-93	203,567	14,193	95,315	94,060
1993-94	205,354	14,792	94,457	96,106
1994-95	210,082	15,368	96,576	98,137

Inflation-adjusted revenue per pupil
(1987 dollars)

Year	*Total*	*Federal*	*State*	*Local*
1979-80	$3,457	$319	$1,697	$1,441
1980-81	3,527	307	1,701	1,519
1981-82	3,594	265	1,721	1,608
1982-83	3,649	263	1,740	1,646
1983-84	3,761	263	1,798	1,700
1984-85	3,935	266	1,928	1,741
1985-86	4,111	277	2,030	1,805
1986-87	4,195	270	2,089	1,836
1987-88	4,313	277	2,126	1,911
1988-89	4,517	288	2,192	2,036
1989-90	4,641	293	2,242	2,106
1990-91	4,722	299	2,278	2,145
1991-92	4,715	315	2,235	2,165
1992-93	4,763	332	2,230	2,201
1993-94	4,737	341	2,179	2,217
1994-95	4,749	347	2,183	2,218

Continued

Table 3
School Revenue Summary, 1979-80 to 1994-95

	Percentage change of inflation — adjusted revenue per pupil from previous year			
Year	*Total*	*Federal*	*State*	*Local*
1980-81	2.0%	-3.8%	0.2%	5.4%
1981-82	1.9	-13.6	1.2	5.9
1982-83	1.5	-0.8	1.1	2.3
1983-84	3.1	-0.2	3.3	3.3
1984-85	4.6	1.2	7.3	2.4
1985-86	4.5	4.0	5.3	3.7
1986-87	2.0	-2.3	2.9	1.7
1987-88	2.8	2.4	1.8	4.1
1988-89	4.7	4.3	3.1	6.5
1989-90	2.7	1.6	2.2	3.4
1990-91	1.7	2.0	1.6	1.8
1991-92	-0.1	5.4	-1.9	0.9
1992-93	1.0	5.4	-0.2	1.7
1993-94	-0.6	2.7	-2.3	0.7
1994-95	0.3	1.8	0.2	0.1

	Elementary-Secondary School Enrollment (in thousands)	
Year	*Students*	*Percentage Change*
1979-80	41,651	
1980-81	40,877	-1.9%
1981-82	40,044	-2.0%
1982-83	39,566	-1.2%
1983-84	39,252	-0.8%
1984-85	39,208	-0.1%
1985-86	39,422	0.5%
1986-87	39,753	0.8%
1987-88	40,008	0.6%
1988-89	40,189	0.5%
1989-90	40,543	0.9%
1990-91	41,217	1.7%
1991-92	42,047	2.0%
1992-93	42,735	1.6%
1993-94	43,353	1.4%
1994-95	44,237	2.0%
1995-96	45,037	1.8%
1996-97	45,960	2.0%
1997-98	46,797	1.8%
1998-99	47,403	1.3%
1999-2000	47,911	1.1%

Note: Inflation increase of the implicit price deflator for state and local government purchases, with calendar years averaged to estimate school year price levels.

Sources: Enrollment — U.S. National Center for Education Statistics, *1994 Digest of Education Statistics* (Washington, D.C.: U.S. Government Printing Office, 1994), p. 52; U.S. National Center for Education Statistics, *Projections of Education Statistics to 2005* (Washington, D.C.: U.S. Government Printing Office, 1995), p. 8; Education Revenue: National Education Association, *Estimates of School Statistics 1994-95* (Washington, D.C.: NEA, 1995), p. 22.

Table 4A
Real State-Local Revenue per Pupil, 1981-82 to 1992-93
(In 1992-93 Prices)

													% CHANGE 1982/83-1992/93	
State	*1981-82*	*1982-83*	*1983-84*	*1984-85*	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*STATE*	*LOCAL*
Alabama	$2,016	$2,551	$2,389	$2,699	$2,903	$2,906	$2,918	$3,165	$3,012	$3,106	$3,150	$3,101	13.7%	55.9%
Alaska	6,721	7,597	8,998	8,566	8,096	6,828	7,093	7,436	7,481	7,501	7,041	6,933	11.3	87.1
Arizona	3,474	3,350	3,197	3,178	3,921	4,224	4,359	4,419	4,409	4,433	4,486	4,449	30.7	112.0
Arkansas	2,606	2,606	2,819	3,014	3,168	3,068	3,288	3,329	3,469	3,455	3,730	3,842	69.4	19.5
California	4,084	3,900	4,236	4,466	4,745	4,827	4,914	5,169	5,185	5,035	5,050	4,787	42.1	98.1
Colorado	4,712	4,625	4,818	4,962	4,990	5,018	4,907	4,639	5,100	5,047	5,017	4,863	20.9	16.0
Connecticut	4,628	4,980	5,305	5,623	6,030	6,560	7,222	7,823	8,235	8,107	7,989	7,974	63.1	49.9
Delaware	4,796	4,815	4,996	5,190	5,352	5,400	5,474	5,604	5,751	5,701	5,685	5,720	31.0	41.9
Florida	3,858	4,017	4,319	4,405	4,633	4,827	5,064	5,181	5,474	5,498	5,313	5,196	57.8	93.1
Georgia	3,082	2,982	3,001	3,250	3,648	3,861	4,393	4,463	4,764	4,659	4,307	4,163	32.3	106.9
Hawaii	4,047	4,412	4,273	4,203	4,326	4,355	4,375	4,475	4,739	5,459	5,843	5,678	38.4	570.0
Idaho	2,937	2,783	3,064	3,034	2,997	3,072	3,151	3,197	3,354	3,534	3,596	3,547	46.6	37.5
Illinois	4,254	4,100	4,217	4,358	4,562	4,797	4,856	5,069	4,968	4,942	4,978	4,902	14.2	22.9
Indiana	3,716	3,488	3,849	4,264	4,173	4,418	4,349	4,937	4,734	5,585	5,200	5,639	57.1	53.0
Iowa	4,203	4,213	4,233	4,034	4,262	4,350	4,467	4,575	4,525	4,613	4,719	4,845	36.7	-6.6
Kansas	4,521	4,545	4,633	4,819	4,915	4,757	4,802	4,848	5,010	5,049	4,960	4,948	41.9	3.5
Kentucky	2,777	2,954	3,116	3,042	3,079	3,410	3,561	3,461	3,566	4,090	4,411	4,344	38.5	68.5
Louisiana	3,654	3,569	3,572	3,606	3,597	3,288	3,387	3,585	3,803	3,801	3,885	3,884	11.4	5.9
Maine	3,306	3,436	3,593	3,725	3,951	4,383	4,806	5,078	5,570	5,467	5,386	5,587	66.3	58.1
Maryland	4,533	4,637	4,764	5,033	5,236	5,488	5,895	6,077	6,361	6,344	5,960	6,079	43.7	39.0
Massachusetts	4,725	4,770	4,855	5,149	5,452	5,798	6,192	6,442	6,506	6,409	6,385	6,271	14.9	30.3
Michigan	4,510	4,314	4,262	4,446	4,486	4,917	4,973	5,695	5,958	6,160	6,324	6,313	35.5	33.1
Minnesota	4,607	4,604	4,881	4,868	5,018	5,135	5,196	5,499	5,685	5,674	5,757	5,668	53.5	21.5
Mississippi	2,309	2,242	2,399	2,391	2,784	2,649	2,720	2,868	2,982	2,884	2,956	2,971	34.4	66.6
Missouri	3,382	3,522	3,732	3,698	3,866	4,163	4,471	4,527	4,673	4,775	4,649	4,669	38.2	39.2
Montana	4,803	4,698	4,857	4,824	4,866	4,646	4,557	4,497	4,645	4,956	4,924	4,707	-14.8	27.8
Nebraska	3,572	3,686	3,752	3,811	3,920	4,055	3,945	4,050	4,348	4,562	4,412	4,674	81.7	8.9
Nevada	3,922	3,832	3,857	3,944	4,462	4,038	4,465	4,732	4,879	5,046	5,198	4,958	58.7	119.1
New Hampshire	3,769	3,879	3,944	4,136	4,371	4,697	5,157	5,646	5,826	6,060	5,951	5,864	72.4	70.9
New Jersey	5,622	5,932	6,254	6,527	6,912	7,312	7,742	8,120	8,511	8,840	9,180	9,300	60.5	44.5
New Mexico	3,877	3,959	3,865	4,143	4,080	4,082	3,967	4,025	4,102	4,148	4,157	3,980	12.3	-2.8
New York	5,535	5,870	6,086	6,314	6,727	7,073	7,445	7,892	7,952	8,231	7,883	7,876	32.1	34.3
North Carolina	2,848	2,929	3,000	3,339	3,685	3,860	4,112	4,410	4,677	4,748	4,538	4,570	59.0	49.4
North Dakota	4,518	4,308	4,239	4,011	4,213	4,047	3,981	3,895	4,087	4,275	4,284	4,094	-16.2	14.7
Ohio	3,559	3,906	4,011	4,184	4,267	4,079	4,140	4,961	5,108	5,123	5,260	5,299	23.0	39.3
Oklahoma	4,042	3,583	3,437	3,350	3,855	3,568	3,486	3,569	3,609	3,853	3,842	4,011	3.2	39.0
Oregon	4,654	4,861	4,824	4,854	5,057	5,064	5,027	5,153	5,086	5,387	5,390	5,403	61.8	10.1
Pennsylvania	4,657	4,821	5,017	5,425	5,657	5,761	5,901	6,245	6,974	7,141	7,370	7,641	44.6	59.9
Rhode Island	4,449	4,438	4,930	5,151	5,386	5,545	5,791	6,228	6,433	6,244	6,188	6,001	39.7	38.2
South Carolina	2,725	2,857	3,037	3,544	3,633	3,735	3,908	4,013	4,242	4,474	4,364	4,332	33.8	97.6
South Dakota	3,513	3,560	3,496	3,488	3,573	3,644	3,601	3,634	3,824	3,859	3,874	3,977	20.1	21.1
Tennessee	2,628	2,629	2,574	2,859	3,011	3,107	3,186	3,250	3,333	3,323	3,296	3,500	35.9	35.2
Texas	3,734	3,890	3,935	4,392	4,394	4,375	4,288	4,214	4,215	4,452	4,652	4,976	37.6	66.1
Utah	3,255	3,265	3,163	3,339	3,319	3,206	3,102	3,051	3,119	3,135	3,203	3,338	39.2	12.2
Vermont	4,020	4,192	4,436	4,669	4,912	5,023	6,279	6,068	6,328	6,622	6,613	6,528	52.6	76.9
Virginia	3,537	3,750	3,943	4,130	4,490	4,665	4,950	5,065	5,228	5,304	5,141	5,132	50.6	41.7
Washington	4,182	4,138	4,298	4,400	4,368	4,684	4,817	4,970	5,219	5,439	5,526	5,696	63.5	81.7
West Virginia	3,423	3,352	3,447	3,725	3,946	4,071	3,957	3,753	4,343	4,918	5,089	5,393	46.0	15.6
Wisconsin	4,397	4,577	4,532	4,903	5,015	5,200	5,367	5,542	5,729	5,907	6,015	6,160	41.2	42.9
Wyoming	6,549	7,815	7,984	7,870	7,810	7,344	6,565	6,386	6,187	5,876	5,819	5,683	30.9	-53.2
National Average	4,017	4,076	4,211	4,417	4,614	4,738	4,877	5,105	5,251	5,355	5,354	5,371	38.5	45.1

Note: Revenue was deflated by the implicit deflator for state and local government spending.
Source: National Education Association data as of November 1994.

Table 4B
Real State Revenue per Pupil, 1981-82 to 1992-93
(In 1992-93 Prices)

State	*1981-82*	*1982-83*	*1983-84*	*1984-85*	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*
Alabama	$1,495	$2,048	$1,875	$2,165	$2,329	$2,315	$2,273	$2,471	$2,312	$2,374	$2,357	$2,320
Alaska	5,414	6,213	7,199	6,669	6,207	4,974	5,167	5,417	5,446	5,464	5,124	5,045
Arizona	1,904	1,968	1,930	2,189	2,204	2,212	2,120	2,160	2,092	2,093	2,122	2,080
Arkansas	1,592	1,604	1,817	2,046	2,153	2,030	2,173	2,166	2,304	2,289	2,549	2,666
California	2,972	2,868	3,061	3,236	3,514	3,606	3,586	3,739	3,712	3,596	3,618	3,187
Colorado	2,008	2,033	2,014	2,139	2,039	2,064	2,015	1,957	2,043	2,071	2,258	2,188
Connecticut	1,694	1,908	2,097	2,306	2,496	2,755	3,217	3,628	3,918	3,471	3,409	3,216
Delaware	3,521	3,575	3,723	3,861	3,995	4,029	4,102	4,163	4,189	4,231	4,152	4,158
Florida	2,218	2,349	2,506	2,523	2,649	2,741	2,903	2,863	2,991	2,946	2,771	2,780
Georgia	1,872	1,874	1,712	1,981	2,270	2,480	2,567	2,588	2,732	2,642	2,240	2,163
Hawaii	4,027	4,393	4,260	4,192	4,318	4,348	4,368	4,469	4,733	5,340	5,727	5,563
Idaho	1,958	1,827	2,127	2,055	2,026	2,023	2,095	2,084	2,207	2,384	2,431	2,379
Illinois	1,785	1,623	1,671	1,751	1,930	2,012	1,873	1,897	2,114	2,020	1,897	1,855
Indiana	2,146	1,895	2,144	2,629	2,530	2,696	2,609	2,876	2,872	3,083	2,903	3,101
Iowa	1,890	1,863	1,904	1,744	1,941	1,959	2,184	2,422	2,423	2,495	2,536	2,603
Kansas	2,007	2,041	2,119	2,226	2,277	2,132	2,179	2,226	2,328	2,340	2,240	2,611
Kentucky	2,178	2,332	2,443	2,353	2,375	2,655	2,785	2,655	2,729	3,113	3,353	3,280
Louisiana	2,222	2,161	2,121	2,226	2,204	2,034	2,059	2,114	2,346	2,326	2,419	2,399
Maine	1,784	1,850	1,964	2,031	2,189	2,475	2,632	2,852	3,144	2,983	2,882	3,079
Maryland	1,980	1,979	2,050	2,089	2,169	2,288	2,365	2,430	2,553	2,534	2,517	2,645
Massachusetts	1,848	1,861	2,029	2,302	2,413	2,768	2,757	2,776	2,362	2,498	2,141	2,260
Michigan	1,577	1,452	1,427	1,563	1,654	1,814	1,859	1,963	2,039	2,096	2,154	2,150
Minnesota	3,112	2,156	2,757	2,841	2,926	3,074	3,055	3,089	3,119	3,252	3,108	2,986
Mississippi	1,595	1,539	1,655	1,639	1,799	1,759	1,791	1,896	1,945	1,848	1,879	1,898
Missouri	1,429	1,421	1,450	1,448	1,590	1,739	1,842	1,884	1,957	1,960	1,857	1,876
Montana	2,289	2,488	2,683	2,631	2,565	2,430	2,347	2,301	2,323	2,380	2,257	2,019
Nebraska	1,142	1,200	1,172	1,123	1,094	1,045	1,013	1,033	1,266	1,751	1,896	2,085
Nevada	1,683	1,797	1,554	1,429	1,919	1,823	1,797	1,783	1,899	2,170	2,096	1,933
New Hampshire	297	324	246	211	288	286	404	467	480	467	500	494
New Jersey	2,183	2,477	2,637	2,803	3,083	3,264	3,453	3,686	3,673	3,514	4,094	4,123
New Mexico	3,184	3,382	3,296	3,547	3,510	3,490	3,396	3,446	3,491	3,543	3,527	3,468
New York	2,354	2,486	2,526	2,742	2,929	3,155	3,384	3,573	3,415	3,680	3,367	3,303
North Carolina	2,111	1,997	2,051	2,298	2,593	2,685	2,898	3,106	3,310	3,327	3,164	3,177
North Dakota	2,625	2,503	2,474	2,333	2,421	2,230	2,204	2,092	1,988	2,071	2,081	2,060
Ohio	1,482	1,800	1,868	1,992	2,055	2,143	2,116	2,306	2,331	2,320	2,281	2,280
Oklahoma	2,804	2,647	2,477	2,357	2,625	2,312	2,199	2,271	2,267	2,582	2,664	2,717
Oregon	1,716	1,526	1,472	1,459	1,469	1,473	1,431	1,454	1,482	1,480	1,788	2,172
Pennsylvania	2,211	2,307	2,393	2,614	2,725	2,810	2,856	2,926	3,374	3,403	3,427	3,465
Rhode Island	1,727	1,666	2,056	2,194	2,380	2,485	2,656	2,853	2,917	2,669	2,605	2,268
South Carolina	1,779	1,777	1,844	2,321	2,334	2,311	2,342	2,316	2,431	2,449	2,331	2,282
South Dakota	1,100	1,082	1,081	1,044	1,116	1,127	1,097	1,062	1,119	1,199	1,176	1,202
Tennessee	1,418	1,394	1,327	1,565	1,670	1,737	1,750	1,751	1,787	1,754	1,638	1,859
Texas	1,923	1,995	1,929	2,253	2,191	2,155	2,066	1,986	1,942	2,129	2,187	2,319
Utah	1,812	1,870	1,786	1,835	1,956	1,854	1,845	1,809	1,877	1,916	1,970	2,084
Vermont	1,196	1,579	1,649	1,660	1,769	1,871	2,361	2,352	2,356	2,373	2,307	2,237
Virginia	1,203	1,301	1,387	1,440	1,681	1,723	1,832	1,844	1,900	1,976	1,794	1,853
Washington	3,361	3,258	3,380	3,459	3,448	3,677	3,733	3,809	4,027	4,244	4,299	4,380
West Virginia	2,389	2,279	2,356	2,636	2,749	2,831	2,743	2,540	3,082	3,580	3,705	3,929
Wisconsin	1,687	1,848	1,870	1,923	1,884	1,844	2,260	2,292	2,420	2,507	2,509	2,469
Wyoming	1,917	2,320	3,100	3,082	3,056	3,191	3,362	3,162	3,332	3,013	3,225	3,077
National Average	2,082	2,100	2,170	2,328	2,448	2,528	2,575	2,654	2,715	2,761	2,732	2,705

Note: Revenue was deflated by the implicit deflator for state and local government spending.
Source: National Education Association data as of November 1994.

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Table 4C

Real Local Revenue per Pupil, 1981-82 to 1992-93

(In 1992-93 Prices)

State	*1981-82*	*1982-83*	*1983-84*	*1984-85*	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*1991-92*	*1992-93*
Alabama	$521	$503	$514	$534	$574	$591	$645	$694	$700	$732	$793	$781
Alaska	1,307	1,384	1,799	1,897	1,889	1,854	1,926	2,019	2,035	2,037	1,917	1,888
Arizona	1,570	1,382	1,267	989	1,717	2,012	2,240	2,259	2,317	2,340	2,363	2,369
Arkansas	1,014	1,002	1,002	968	1,015	1,039	1,116	1,163	1,166	1,166	1,181	1,176
California	1,112	1,032	1,174	1,230	1,232	1,221	1,328	1,430	1,473	1,438	1,431	1,600
Colorado	2,704	2,592	2,804	2,824	2,951	2,954	2,893	2,682	3,057	2,976	2,759	2,675
Connecticut	2,934	3,072	3,208	3,317	3,534	3,805	4,005	4,195	4,318	4,636	4,580	4,758
Delaware	1,274	1,240	1,273	1,329	1,358	1,371	1,372	1,440	1,562	1,471	1,532	1,562
Florida	1,640	1,668	1,813	1,881	1,984	2,086	2,160	2,318	2,483	2,552	2,542	2,416
Georgia	1,210	1,108	1,289	1,269	1,378	1,381	1,826	1,875	2,032	2,016	2,067	2,000
Hawaii	20	19	14	11	9	7	6	6	6	119	116	115
Idaho	980	956	937	979	970	1,050	1,056	1,113	1,147	1,150	1,165	1,168
Illinois	2,470	2,477	2,546	2,608	2,631	2,785	2,983	3,172	2,854	2,922	3,080	3,047
Indiana	1,569	1,593	1,704	1,635	1,642	1,722	1,739	2,061	1,863	2,502	2,298	2,538
Iowa	2,313	2,349	2,330	2,290	2,321	2,390	2,283	2,153	2,102	2,117	2,183	2,242
Kansas	2,514	2,504	2,515	2,593	2,638	2,625	2,622	2,622	2,682	2,710	2,720	2,338
Kentucky	598	622	673	689	704	756	776	806	837	977	1,058	1,064
Louisiana	1,432	1,408	1,450	1,381	1,394	1,253	1,328	1,471	1,457	1,475	1,467	1,485
Maine	1,522	1,585	1,628	1,694	1,762	1,908	2,173	2,226	2,426	2,484	2,505	2,508
Maryland	2,553	2,658	2,713	2,945	3,068	3,200	3,529	3,647	3,809	3,810	3,443	3,435
Massachusetts	2,877	2,910	2,826	2,848	3,039	3,030	3,435	3,666	4,144	3,910	4,244	4,011
Michigan	2,933	2,862	2,835	2,884	2,832	3,103	3,114	3,732	3,919	4,065	4,170	4,163
Minnesota	1,495	2,449	2,125	2,027	2,091	2,061	2,141	2,410	2,566	2,421	2,649	2,683
Mississippi	713	703	744	752	985	890	929	972	1,037	1,036	1,078	1,073
Missouri	1,953	2,101	2,282	2,249	2,276	2,423	2,629	2,643	2,716	2,815	2,792	2,793
Montana	2,514	2,209	2,174	2,194	2,301	2,216	2,210	2,196	2,322	2,576	2,667	2,688
Nebraska	2,430	2,486	2,579	2,688	2,826	3,010	2,932	3,017	3,082	2,811	2,516	2,589
Nevada	2,239	2,036	2,303	2,516	2,542	2,214	2,669	2,949	2,980	2,876	3,101	3,025
New Hampshire	3,472	3,555	3,698	3,925	4,083	4,411	4,753	5,179	5,345	5,594	5,450	5,370
New Jersey	3,439	3,455	3,617	3,724	3,829	4,049	4,290	4,434	4,838	5,327	5,086	5,178
New Mexico	693	577	569	596	569	591	571	579	611	605	630	512
New York	3,181	3,384	3,560	3,572	3,797	3,918	4,062	4,319	4,536	4,551	4,516	4,573
North Carolina	737	932	949	1,041	1,092	1,175	1,214	1,304	1,367	1,421	1,374	1,393
North Dakota	1,894	1,805	1,766	1,678	1,792	1,818	1,777	1,803	2,099	2,204	2,203	2,034
Ohio	2,076	2,106	2,143	2,192	2,212	1,936	2,023	2,655	2,777	2,802	2,979	3,020
Oklahoma	1,238	936	959	993	1,230	1,256	1,287	1,298	1,342	1,271	1,178	1,294
Oregon	2,938	3,335	3,352	3,395	3,587	3,591	3,595	3,699	3,604	3,907	3,602	3,231
Pennsylvania	2,445	2,515	2,624	2,811	2,932	2,950	3,045	3,319	3,600	3,738	3,943	4,177
Rhode Island	2,722	2,772	2,875	2,957	3,005	3,060	3,135	3,375	3,517	3,575	3,583	3,733
South Carolina	946	1,081	1,193	1,223	1,299	1,424	1,566	1,697	1,811	2,025	2,034	2,051
South Dakota	2,412	2,478	2,415	2,444	2,457	2,517	2,504	2,572	2,705	2,661	2,698	2,775
Tennessee	1,210	1,236	1,247	1,294	1,341	1,370	1,436	1,499	1,545	1,569	1,658	1,640
Texas	1,810	1,894	2,006	2,139	2,203	2,220	2,222	2,228	2,273	2,324	2,465	2,657
Utah	1,443	1,395	1,378	1,505	1,364	1,351	1,257	1,242	1,242	1,219	1,233	1,254
Vermont	2,824	2,612	2,787	3,009	3,143	3,152	3,918	3,716	3,972	4,249	4,306	4,291
Virginia	2,334	2,449	2,556	2,690	2,809	2,943	3,119	3,221	3,329	3,328	3,348	3,280
Washington	821	880	917	941	920	1,007	1,084	1,161	1,192	1,195	1,227	1,316
West Virginia	1,034	1,074	1,092	1,090	1,197	1,240	1,214	1,213	1,261	1,338	1,384	1,465
Wisconsin	2,710	2,729	2,662	2,981	3,131	3,355	3,107	3,251	3,309	3,400	3,506	3,691
Wyoming	4,632	5,495	4,884	4,789	4,754	4,153	3,203	3,224	2,855	2,863	2,594	2,606
National Average	1,935	1,976	2,041	2,089	2,166	2,210	2,302	2,451	2,537	2,594	2,621	2,667

Note: Revenue was deflated by the implicit deflator for state and local government spending
Source: National Education Association data as of November 1994

Sources of State and Local School Revenue

The great majority of state and local revenue for schools is from taxes. At the state level, lotteries frequently also help to fund school aid. At the local level, most school revenue comes from the property tax.

State revenue for schools

The best answer to the question, "Where do states obtain money for school aid?" is that it comes from general state tax revenue. In 1992, nearly two-thirds of state tax revenue was derived from two taxes—the general sales tax (32.8%) and the personal income tax (31.8%). Other important taxes were the corporation income tax (6.6%) and excise taxes (16.7%). The composition of revenue varies considerably from state to state.[6]

Earmarking

Earmarking of state tax revenue for schools is widespread. Earmarking may be defined as the dedication of a flow of revenue on a continuing basis for a particular program or department.

Because the state descriptions in these volumes omit considerable information about earmarking, this discussion relies heavily on a survey of state earmarking provisions during fiscal year 1993 by the National Conference of State Legislatures.[7] Its findings are summarized in Table 5.

In 1993, 28 states earmarked at least one tax for education. The taxes most frequently earmarked were the general sales tax (13 states), the severance tax (9 states), and tobacco taxes (7 states). Other taxes earmarked in at least four states are those on alcoholic beverages (7 states), personal income (7 states), public utilities (3 states), property (4 states), corporate income (6 states), and insurance premiums (3 states).

In addition, 12 states earmark lottery revenue for education (California, Florida, Idaho, Illinois, Indiana, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio, and West Virginia).[8] In several states, some of the revenue is shared with higher education, but most revenue earmarked for education goes to elementary and secondary schools.

Once it has been in effect for several years, earmarking generally does little to increase the proportion of total state funding for schools. Although some states earmark substantial amounts of revenue—for example, in New Jersey, all personal income tax revenue—state school aid is usually so large that it dwarfs the revenue that is earmarked. States usually take earmarked revenue into account when deciding how much nonearmarked revenue to provide to schools, so earmarking does not necessarily add anything to state funding of schools. After earmarking has been in effect for a number of years, it is virtually impossible to determine how much state school aid would have been if there were no earmarking, so there can be no guarantee that earmarking supplements state aid.

There are two important qualifications to this generalization. First, earmarking often is helpful to schools in the years immediately after it is enacted because state officials may feel committed to schools when an earmarking provision is enacted. Second, earmarking may make it politically feasible to increase a tax or enact a lottery. In that case, education benefits because the total state revenue base is expanded, not because the schools' share of revenue is enhanced.

Local school revenue

The property tax is overwhelmingly the source of local tax revenue. In 1991, it accounted for 97.5% of the tax revenue of independent school districts.[9] There were only four states where the property tax did not generate at least 96% of school district revenue:

- In Louisiana, 57.0% was from the sales tax, with 43.0% from the property tax.

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[6] See Steven D. Gold, *Tax Options for States Needing More School Revenue* (Washington, D.C.: National Education Association, 1994); Steven D. Gold and Judy Zelio, *State-Local Fiscal Indicators* (Denver: National Conference of State Legislatures, 1990); U. S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*.

[7] Arturo Perez and Ronald K. Snell, *Earmarking State Taxes*, 3rd ed. (Denver: National Conference of State Legislatures, 1995).

[8] Arturo Perez, 'Earmarking State Lottery Profits," *NCSL Legisbrief* (Vol.3, No. 25, June/July 1995).

[9] Data for 1991 are the latest available. They were published in U.S. Census Bureau, *Government Finances: 1990-91*.

Table 5
Earmarking of State Tax Revenue for K-12 and Higher Education, FY 1993

State	Type of Tax	Percent Dedicated	Recipient
New England			
(no states)			
Mid-Atlantic			
New Jersey	Gross income	82.0 %	K-12 education
Great Lakes			
Illinois	Personal and corporate	7.3	K-12; higher education
	Public utilities	1.6	K-12 education
	Cigarette	20.8	K-12 education
	Intertrack/OTB wagering	14.	Home economics extension
	Riverboat gambling tickets	75.0	K-12 education
	Pull tabs and jar games	50.0	K-12 education
	Bingo	48.6	K-12 education
	Sales	21.6	K-12 education
Michigan	Sales	60.0	School aid fund
	Industrial facilities	100.0	School aid fund
	Cigarette	8.0	School aid fund
	Liquor	29.4	School aid fund
Plains			
Kansas	Sales and use	9.6	K-12 education
	Individual income	4.9	K-12 education
	Severance	3.5	K-12 education in producing area
Minnesota	Mining occupation	40.	Elementary and secondary schools
		10.0	University of Minnesota
Missouri	Individual income	0.1	Missouri Community College job
	Sales, use, and motor	22.0	Public schools
	Cigarette	69.2	State school money fund
		30.8	Fair share fund
Nebraska	Insurance	60.0	K-12 education, counties and cities
	Severance	89.6	Permanent school fund
North Dakota	One-mill statewide	100.0	University Medical Center
South Dakota	Sales and use	56.3	K-12 education
Southeast			
Alabama	Sales	94.7	Education
	Public utilities	72.0	Education
	Tobacco	31.7	Education
	Insurance	19.5	Education
	Alcoholic beverage	14.5	Education
	Rental	40.0	Education
	Personal income	97.4	K-12 education
	Corporation income	100.0	K-12; higher education
	Property	46.0	Education
Arkansas	Corporate income estimates	5.9	Technical colleges; lifelong learning
	Sales	9.7	K-12 education

Continued

Table 5, continued

State	Type of Tax	Percent Dedicated	Recipient
Arkansas *(continued)*		0.1 %	Department of Education
		0.2	Vo-tech administration
		0.6	Department of Higher Education grants
		2.7	Four-year and community colleges
	Mixed drink	26.2	Univ. of Arkansas Med. Center
Florida	Gross receipts utilities	100.0	Public education capital outlay and debt service trust fund
Louisiana	Royalties from offshore	50.0	K-12 education properties
		50.0	Higher education
Mississippi	Sales	1.6	Public school building fund
		2.3	Local school districts
		32.0	Higher education enhancement fund
		68.0	K-12 education enhancement fund
North Carolina	Income corporations	12.5	County school facilities capital
South Carolina	Sales	20.1	Education
Tennessee	Sales	67.2	Education
	Tobacco	99.5	Education
	Mixed drinks	48.1	Education
Virginia	Sales and use	28.6	K-12 education
West Virginia	Soft drinks	100.0	West Virginia University Medical School
Southwest			
Arizona	Motor vehicle license	17.1	Schools
New Mexico	Oil and gas state royalty	100.4	State Permanent Fund
Oklahoma	Motor vehicle collections	29.3	School districts
	Gas severance	7.3	School districts
	Oil severance	7.5	School districts
Texas	Cement	25.0	Public education (K-12)
	Coin-operated amusement	25.0	Public education (K-12)
	Professional	25.0	Public education (K-12)
	Utilities	25.0	Public education (K-12)
	Oil production	25.0	Public education (K-12)
	Natural gas	25.0	Public education (K-12)
	Oil and gas well	25.0	Public education (K-12)
	Sulphur	25.0	Public education (K-12)
	Motor carriers	25.0	Public education (K-12)
	Motor vehicle sales	25.0	Public education (K-12)
	Motor vehicle use	25.0	Public education (K-12)
	Insurance occupation	25.0	Public education (K-12)
	Alcoholic beverage	25.0	Public education (K-12)
	Cigarette	1.8	Public education (K-12)
	Gasoline. diesel. LPG	25.0	Public education (K-12)
Rocky Mountain			
Idaho	Alcoholic beverage	9.4	K-12 education
		2.3	Community colleges
	All other	0.8	Public schools
Montana	Individual income	28.4	K-12 education
	Corporation income	22.0	K-12 education

Continued

Table 5, continued

State	Type of Tax	Percent Dedicated	Recipient
Montana *(continued)*	Severance	4.0	K-12 education
	Property	89.6	K-12 education
	Property	6.0	Higher education / vo-tech
		0.4	Vocational education
Utah	Individual income	100.0	Public education
	Corporate franchise	100.0	Public education
	Mineral production	100.0	Public education
	Gross receipts	100.0	Public education
Far West			
Alaska	Tobacco	16.2	School construction
Nevada	Sales	33.6	Local school districts
		3.0	State distributive school account
	Estate	47.3	K-12 education
		47.3	University system
Oregon	Oil and gas severance	100.0	K-12 education
Washington	Alcoholic beverage	4.6	Drug enforcement and education
	Real estate excise	92.7	K-12 education
	State property	100.0	K-12 education

Source: Arturo Pérez and Ronald Snell, *Earmarking State Taxes*, 3rd edition (Denver: National Conference of State Legislatures, 1995).

- In Kentucky, 67.0% came from the property tax, but 13.6% was from income taxes, and 19.4% was derived from other taxes.
- In Pennsylvania, 83.8% was from the property tax, but 9.3% came from the income tax.
- In South Dakota, 95.9% came from the property tax, but sales taxes contributed 3.0%.

Besides Kentucky and Pennsylvania, local income taxes are used by some school districts in Iowa and Ohio, but they account for less than 1% of local school tax revenue.

This section refers only to taxes imposed by independent school districts. In nine states, all of the schools are fiscally dependent on other governments, usually either cities or counties.[10] For example, in Maryland and Virginia schools are usually operated by counties, in Connecticut and Massachusetts by cities and towns, and in Hawaii by the state government. Because cities and counties have greater access to local nonproperty taxes than do school districts, it is not uncommon for dependent school districts to receive revenue from the income tax, the sales tax, or other nonproperty taxes.

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[10] The nine states with no local tax revenue for independent school districts are Alaska, Connecticut, Hawaii, Maryland, Massachusetts, North Carolina, Rhode Island, Tennessee, and Virginia. In addition, some school districts are fiscally dependent in California, Maine, New Hampshire, New Jersey, and New York.

OVERVIEW OF APPROACHES TO SCHOOL FUNDING

States use a variety of methods to aid local schools. Because education finance programs are individually tailored to states' perceived educational needs, no two states fund education in exactly the same manner. This has resulted in a cornucopia of interesting and sometimes innovative methods of financing education, ranging from the simple to the complex.

This section provides the reader with a basic introduction to some education finance concepts.[1] It is hoped that a discussion of these concepts will help those readers not familiar with them to better understand the descriptions contained in this book.

Aid can be divided into two basic types:

- *Basic support* aid is the main component of a state's education finance system, in most cases providing the majority of aid. It is a general purpose aid to be spent on the day-to-day operations of the school district and is intended to address differences among local school districts in educational need and ability to finance education. Basic support aid programs are designed to distribute aid in direct relationship with educational need and inversely to local ability to pay: that is, the greater the perceived educational need of the district, the more aid it will receive compared to districts with less need; and the greater the ability of a district to finance education, the less aid it will receive compared to districts with lower ability.

- *Categorical* aid is intended to address a specific educational need and must be spent on the identified need. Categorical aid programs can address (but are not limited to) need areas such as special education, transportation, compensatory education, vocational education, and capital outlay. Categorical aid programs often do not take local ability to pay into account, although some states do incorporate a local fiscal capacity measure into their categorical aid programs to account for differences in school district ability to pay.

The remainder of this section focuses on the approaches states take to funding basic support aid.

State basic support aid programs can be broadly divided into five categories: flat grants, foundation programs, percentage equalizing, guaranteed tax base or guaranteed tax yield programs, and full state funding programs. (Table 6 shows the approach used in each state.) State education finance basic support programs are comprised of various components or structural elements.[2] States differ in how they define and measure their structural elements, and often include additional adjustments for special factors. This introductory section briefly explains how each of the five categories of funding approaches operate but does not discuss the structural elements specific to each state. The reader is referred to the detailed state and provincial descriptions for information on structural elements included in the basic support programs.

Two of the 50 states present descriptions for the 1994-95 school year — Colorado and Michigan. The description for Wyoming covers the 1992-93 school year.

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[1] For a more detailed discussion it is suggested the reader refer to a basic textbook in education finance such as David H. Monk, *Education Finance: An Economic Approach*, (New York: McGraw-Hill, 1990); James W. Guthrie, Walter I. Garms, and Lawrence C. Pierce, *School Finance and Education Policy: Enhancing Educational Efficiency, Equality, and Choice, Second Edition* , (Englewood Cliffs, N.J.: Prentice-Hall, 1988); Allan Odden and Lawrence Picus, *School Finance: A Policy Perspective*, (McGraw-Hill, Inc. 1992); or Kern Alexander and Richard Salmon, *Public School Finance*, (Allyn & Bacon, 1995).

[2] Robert Berne and Leanna Stiefel, "Concepts of Equity and Their Relationship to State School Finance Plans," *Journal of Educational Finance*, 5 (Fall 1979), pp. 109-132.

Table 6
Classification of 1993-94 Basic Support Programs

Flat Grants	Foundation Programs		Percent Equalization Programs	Guaranteed Tax Base/Yield Programs	Full State Funding
	Required Local Effort	*Local Effort Not Required*			
Delaware (with separate equalization component) North Carolina	Alabama Alaska Colorado Florida Georgia[1] Iowa Kentucky Maine Massachusetts Michigan Minnesota Mississippi Missouri[2] Nevada New Mexico Ohio South Carolina Tennessee Texas[1] Utah Virginia Wyoming	Arizona Arkansas California Idaho Illinois Kansas Louisiana Maryland Montana[1] Nebraska New Hampshire New Jersey North Dakota Oklahoma[1] Oregon South Dakota Vermont West Virginia	Rhode Island **Foundation Type** *Required Local Effort* Connecticut *Local Effort Not Required* New York Pennsylvania	Indiana Wisconsin	Hawaii Washington
Total = 2	Total = 22	Total = 18	Total = 4	Total = 2	Total = 2

The following states provided descriptions for years other than 1993-94: Colorado — 1994-95, Michigan — 1994-95, and Wyoming — 1992-93.

[1] These states have a second tier of GTB/GTY funding in addition to the foundation program.
[2] Missouri incorporates a GTB add-on into the basic support formula.

Funding Concepts

Education finance systems are based on two funding concepts: educational need and ability to pay. In combination, they determine local fiscal capacity. Generally, fiscal capacity is expressed as a district's fiscal resources or tax base divided by a measure of the district's educational need for those resources.[3]

Educational Need

Educational need can be defined as the demand placed upon a district's resources available to fund education. This demand is related to the number of pupils within a district[4] (usually weighted to account for differences in pupil characteristics), the cost of educating different student populations, and other educational cost factors beyond the control of the district.

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[3] Monk, *Education Finance*, p. 185.
[4] Monk, *Education Finance*, p. 186.

Pupil Count, Teacher Units, and Instructional Units

The most common method of measuring the educational need of a district is through pupil counts: the greater the number of pupils, the greater the need. States utilize three types of pupil counts: Enrollment (ENR), Average Daily Membership (ADM), and Average Daily Attendance (ADA). ENR is based on a school district's total enrollment on a single day. ADM is based on a district's average total enrollment over a given time period. ADA is based on the actual number of students that attend school on any given day and is determined by summing the number of students attending over a given time period and then dividing total daily attendance by that given time period. States vary in the measurement techniques used to determine ENR, ADM, and ADA pupil counts, as well as whether current year or previous year pupil counts are used.

Some states use teacher units or instructional units as a measure of need instead of pupil units. The number of teacher or instructional units is generally based on a district's pupil count.

Basic support aid is usually allocated on a per-unit basis, either pupil unit or teacher/instructional unit. Table 7 indicates the type of allocation unit used by each state. Based on the state descriptions seven states use ADA, 22 states use ADM, 12 states use ENR and seven states use teacher or instructional units. At least 23 states use previous year(s) unit counts, but 13 of these states make adjustments based on the current year unit count.

Weighting Procedures

Some pupil populations are more costly to educate than others because they require additional educational services. Most states use weighting procedures to account for differences in the cost of educating different pupil populations. Weighting procedures, in effect, adjust the pupil count to provide a better reflection of a school district's educational need.

Weighting procedures generally are based on differences in grade levels, programs, and pupil handicapping condition. Weights are assigned in relation to the cost of educating the "regular" school pupil. The "regular" pupil is given a weight of one (1.0). Other pupil populations are given weights relative to the "regular" pupil weight of 1.0 to reflect the additional cost of educating these pupils. For example, if a particular category of student has a weight of 1.5, that implies that it costs 1.5 times as much to educate that student as it does the "regular" student.

Based on the state descriptions, table 7 indicates that at least 36 states use some form of weighting procedure in the calculation of pupil or teacher/instructional units.

Other Educational Costs

In order to recognize other kinds of educational circumstances affecting a district's cost of educating students, many states incorporate special adjustments into the basic support formula. Some of these cost adjustments include cost of education indices and adjustments for sparsity or isolated school districts, district size, teacher training and experience, municipal overburden, and enrollment growth.

Ability to Pay

The ability of a school district to fund education at the local level is directly related to the local fiscal resources available to that district. In most states the only fiscal resource available to school districts is the property tax. Therefore, the most commonly used measure of district wealth is a district's equalized assessed property valuation.

Property values are said to be *equalized* because assessed values are adjusted for differences in assessment practices. For example, if the average assessment in one school district equals the average market value of property, while in a second district the average assessment is only half of market value, assessments in the second district would be multiplied by two to make them comparable to those in the first district.

School districts in some states have access to other revenue sources in addition to the property tax such as local income tax, local sales tax, vehicle excise tax, and user fees. Together, these form a pool of resources available to local districts to fund education.

Table 7
Classification of 1993-94 Basic Support Allocation Units

Total Enrollment (ENR)	Average Daily Membership (ADM)	Average Daily Attendance (ADA)	Teacher or Instructional
Colorado(w)	Arizona(w)	California (w)	Alabama(w) (p*)
Connecticut	Arkansas(w)(p*)	Idaho*	Alaska(w) (p*)
Georgia(w)(p*)	Florida(w)*	Illinois (w) (p)	Delaware(w)
Indiana(w)	Maine(p)	Kentucky (w) (p*)	Mississippi
Iowa(w)(p)	Michigan (p*)	Missouri(p*)	Washington(w)
Kansas(w)	Minnesota(w)	New York(w) (p*)	West Virginia(w)
Louisiana (w)	Montana(p)	Texas(w) (p)	Wyoming(w) (p*)
Maryland(w)(p)	Nebraska(w)(p)		
Massachusetts(w)	New Hampshire		
Nevada(w)	North Carolina(w)(p*)		
New Jersey(w)	North Dakota(w)		
New Mexico(w)	Ohio		
	Oklahoma(w)(p*)		
	Oregon(w)		
	Pennsylvania(w)		
	Rhode Island(p)		
	South Carolina(w)		
	Tennessee(w)(p*)		
	Utah(w) (p*)		
	Vermont(w) (p*)		
	Virginia		
	Wisconsin		
Total = 12	Total = 22	Total = 7	Total = 7

The following states provided descriptions for school years other than 1993-94: Colorado — 1994-95, Michigan — 1994-95, and Wyoming — 1992-93.

States not included in Table 7: Hawaii (full-state funding) and South Dakota (aid is not based on allocation units).

If the information was provided in the state description:
(w) Indicates that the state uses a weighting procedure in the calculation of the allocation units.
(p) Indicates that the state uses prior year(s) count of allocation units.
* Indicates that the state makes allocation unit adjustments based on current year unit counts.

Most states incorporate differences in local ability to finance education into the calculation of a district's basic support aid. This is generally accomplished by use of a local fiscal capacity measure that takes into account a district's wealth. The wealth factor most commonly used to measure local fiscal capacity is equalized assessed property valuation, although many states use a combination of district wealth factors. This combination of local wealth factors may include personal income or other tax resources available to the district in addition to equalized assessed property valuation.

Table 8 indicates local wealth factors used in state measurement of local fiscal capacity. It is important to note that this table does not refer to the revenue resources available to local school districts, but, rather, it focuses on wealth factors that are incorporated into the state measure of local fiscal capacity used to determine the amount of basic support aid a district will receive. For example, if a school district has access to other tax revenue sources in addition to the property tax, but the state uses only the equalized assessed property valuation of the district as a wealth factor in the measurement of local fiscal capacity, this state would be listed under the "Assessed Property Valuation" column and not under the "Assessed Property Valuation Plus Other Revenue Resources" column.

Table 8 shows that all 47 states listed use assessed property valuation as a wealth factor but only 24 states use assessed property valuation as the only wealth factor to measure local fiscal capacity; 23 states use a combination of wealth factors. Of these 23 states, nine states use a combination of assessed property valuation and other revenue

Table 8
Classification of 1993-94 Basic Support Local Fiscal Capacity Wealth Measures

Assessed Property Valuation (only)		Assessed Property Valuation & Other Revenue Sources (not including Personal Income)	Assessed Property Valuation & Personal Income	Assessed Property Valuation & Personal Income, plus other Revenue Sources
Arizona	Maine	Alaska	Connecticut	Alabama
Arkansas	Michigan	Indiana	Maryland	Missouri
California	Minnesota	Louisiana	Massachusetts	Nebraska
Colorado	Montana	Mississippi	New Hampshire	Tennessee
Delaware	North Dakota	Nevada	New Jersey	Virginia
Florida	Ohio	New Mexico	New York	
Georgia	Oklahoma	Oregon	Pennsylvania	
Idaho	South Carolina	South Dakota	Rhode Island	
Illinois	Texas	Wyoming	Vermont	
Iowa	Utah			
Kansas	West Virginia			
Kentucky	Wisconsin			
Total = 24		Total = 9	Total = 9	Total = 5

The following states provided descriptions for school years other than 1993-94: Colorado — 1994-95, Michigan — 1994-95, and Wyoming — 1992-93.
States not included in Table 8: Hawaii, North Carolina, and Washington. North Carolina and Washington do not use a measure of local fiscal capacity in the distribution of basic support aid.

sources (not including personal income), nine states use a combination of assessed property valuation and personal income, and five states use a combination of assessed property valuation, personal income and other revenue sources.

Basic Support Funding Mechanisms

As mentioned above, basic support funding programs are broadly divided into five categories. The general funding mechanisms differ for each of the five program types as do the philosophical intent inherent to each of the programs. Table 6 indicates the primary type of basic support program used in each state. State basic support programs can differ from the generic mathematical models presented below for the five program types because states often make changes to the mathematical models by adding special adjustments and imposing constraints. In some cases, the basic support program is a combination of two different types of programs. As such, the classification of a basic support programs is often ambiguous as it does not fit neatly into a particular category. This is particularly the case between percentage equalizing programs and foundation programs. Because of this ambiguity, some percentage equalizing programs, still classified as such, have been designated as foundation type percentage equalizing programs. This is discussed further in the section on percentage equalizing programs below.

Flat Grants and Foundation Programs

Flat grants and foundation programs provide aid based on a philosophy of minimum provision. These programs are intended to assure every pupil the minimum level of per-pupil expenditure deemed necessary to provide an "adequate" level of education, The minimum expenditure level, which is determined by the state, should not depend on the school district in which the pupil resides. Additional per-pupil expenditures beyond the minimum level are funded by the school district without the benefit of state aid.[5]

Flat Grants

Flat grants, in simplest form, guarantee an equal amount of aid dollars per unit. The basic flat grant formula takes the following form:

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[5] Guthrie et al., *School Finance and Education Policy*, pp. 132-137.

$$A_i = FN_i$$

where: A_i = the dollar value of the state's grant to the i th district;

F = the flat grant level;

N_i = the number of pupils in the i th district.

Flat grants may be paid either on the basis of pupil units or teacher/instructional units. Flat grant programs do not address differences in local fiscal capacity among districts because districts having the same unit count receive the same amount of state aid regardless of a district's ability to pay for education.

Flat grants can address the issue of educational need by use of a weighting procedure in the determination of unit count. In this case, districts having different educational needs would receive differing amounts of state aid; the district with the greater educational need would receive more aid dollars.

Table 6 shows that two states Delaware and North Carolina use a flat grant program as the primary mechanism to distribute basic support aid. Both incorporate the use of a weighting procedure and Delaware has a smaller secondary basic support aid program for wealth equalization.

Foundation Programs

Foundation programs provide each school district with a level of funding necessary to guarantee each of the district's pupils access to a minimum level of educational services in terms of dollars per pupil as prescribed by the state.[6]

The basic formula for a foundation grant takes the following form:[7]

$$A_i = N_iF - rW_i$$

where: A_i = the dollar value of the state's grant to the i th district;

N_i = the number of pupils in the i th district (suitably weighted);

F = the foundation level;

r = the common tax rate selected by the state;

W_i = the total value of the ith district's tax base.

Foundation programs incorporate a measure of local wealth (W_i), and introduce a local fiscal capacity element not found in the flat grant programs. This establishes an inverse relationship between a district's ability to pay and the amount of state foundation aid. Foundation grants may also take account of a district's educational need by the use of weighting procedures.

In some states the local effort (rW_i) is mandatory — districts are required by the state to have a tax rate no lower than rate r in order to participate in the basic support program. In other states, where the local effort is not required, local effort is used only as a computational device in determining the amount of basic support aid. Districts are free to determine their own tax rates. Local school districts usually impose taxes that enable them to spend more than the foundation level, usually considerably more. Because this spending generally is not equalized, foundation programs place school districts with relatively small per-pupil tax bases at a disadvantage relative to school districts with larger per-pupil tax bases.

Table 6 shows that 40 states use a foundation grant program as the primary mechanism to distribute basic support aid. Of these, 22 states have a required local effort, while 18 states do not.

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[6] Monk, *Education Finance*, p. 197.
[7] Monk, *Education Finance*, pp. 197-198.

Percentage Equalization, Guaranteed Tax Base, and Guaranteed Tax Yield Programs

These three grant programs provide aid based on a philosophy of equal access to educational funding, but each district decides the level of spending. These three programs are matching grant programs. The state will match a percentage of the funds raised for education by the school district based on the fiscal capacity of the district. The emphasis is on the equalization of the ability to generate revenues among school districts.[8] These three funding mechanisms are also known as District Power Equalizing mechanisms since they are concerned with the equalization of local districts' ability to raise revenue.

Although these programs help to "level the playing field" by providing larger grants to school districts with low fiscal capacity, they do not, in practice, equalize per-pupil spending. School districts with above-average tax bases usually impose sufficiently high tax rates that they spend considerably more per-pupil than school districts with below-average tax bases.

Percentage Equalization Programs[9]

Percentage equalization grants take the following form:

$$AR_i = 1 - (fW_i / W_s)$$

Where: AR_i = the aid ratio for the *i* th district ;

f = a scaling coefficient;

W_i = the measure of local fiscal capacity for the *i*th district;

W_s = an arbitrary measure of fiscal capacity set by the state for use in this formula.

The aid ratio is the rate at which the state will match local funds. For example, if the aid ratio were equal to .6, the state would match 60 percent of the of locally raised school revenue. The scaling constant can be interpreted as the local share of the grant program. For example, if f is set at .4, then for a district whose wealth (W_i) is equal to W_s, the state would be required to pay 1 - f or 60 percent, leaving the district to pay 40 percent or .4. The level of W_i and the levels of f and W_s set by the state determine the state share of school revenue in each district. The amount of aid a district receives is equal to:

$$A_i = AR_i E_i N_i$$

where: A_i = the dollar value of the state's grant to the *i* th district;

AR_i = the aid ratio for the *i* th district;

E_i = the per-pupil expenditure for the *i* th district;

N_i = the number of pupils in the *i* th district (suitably weighted).

In theory, there need be no limit on the amount of district expenditures that state aid will match. In practice, states do restrict aid, usually by limiting the amount of per-pupil expenditure that the state will match with aid. This limitation is known as a spending ceiling. In this case, the total amount of aid a district can receive is equal to:

$$A_i = S\ AR_i N_i$$

where: A_i = the dollar value of the state's grant to the *i* th district;

S = the state per-pupil spending ceiling;

AR_i = the aid ratio for the *i* th district;

N_i = the number of pupils in the *i* th district (suitably weighted).

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[8] Guthrie et al., *School Finance and Education Policy*, p. 133.

[9] The discussion of Percentage Equalizing is based on Monk, *Education Finance*, pp. 214-215.

Some percentage equalization programs essentially become foundation programs because the grants are no longer matching. This occurs when the state imposes a spending ceiling (S), where S is generally lower than the district per-pupil expenditure level (E_i).

Table 6 shows that four states use a percentage equalizing grant program as the primary mechanism to distribute basic support aid. Of these, one state requires local effort, while three states do not. All of these states impose spending ceilings. For purposes of these volumes, states that use an aid ratio in determining the amount of state basic support aid are classified as percentage equalizing programs. Rhode Island, because aid is based on previous year expenditures, approaches the percentage equalizing concept. Connecticut, New York, and Pennsylvania impose spending ceilings that limit the amount of aid a district can receive and therefore operate like foundation programs. These three states have been classified as foundation type percentage equalizing programs.

Guaranteed Tax Base and Yield Programs

Guaranteed tax base (GTB) and guaranteed tax yield (GTY) programs are conceptually similar. The state provides matching funds based on the level of local tax effort and the amount of revenues generated by that effort. In both the GTB and GTY funding mechanisms the state guarantees the school district a given amount of revenue per-pupil for a given tax effort.[10]

GTB programs attempt to equalize district ability to pay by guaranteeing a given level of assessed valuation per-pupil. For example, if the statewide average assessed valuation per-pupil is equal to $50,000, the state may guarantee this level of assessed valuation per-pupil for all districts. States, however, may set the guaranteed level at any amount, not necessarily at the statewide average assessed valuation.

In determining the tax rate necessary to raise its budget, the district would use the state guaranteed assessed valuation per pupil. The district would then apply this tax rate to its actual assessed valuation per pupil, with the state compensating the district for the difference between actual revenue raised and the amount that would be raised at the guaranteed valuation.[11] The amount of state aid would be equal to:[12]

$$A_i = (V_s - V_i)r_i$$

where: A_i = the dollar value of the state's grant to the *i* th district;

V_s = the guaranteed per-pupil tax base;

V_i = the per-pupil tax base of the *i* th district;

r_i = the tax rate of the *i* th district.

The equalizing effect of GTB programs depends upon the guaranteed level of assessed valuation per pupil. The higher the guaranteed assessed valuation per pupil, the greater the equalizing effect. However, the cost to the state also rises as the guaranteed assessed valuation increases.

GTY programs attempt to equalize district ability to pay by guaranteeing a given level of revenue per pupil for a given tax rate. A sample GTY schedule would be similar to this:[13]

Effective Tax Rate[14]	*Guaranteed Revenue Per-pupil*
0.5%	$1,000
1.0%	$2,000
1.5%	$3,000
2.0%	$4,000

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[10] Guthrie et al., *School Finance and Education Policy*, pp. 138-141.

[11] Guthrie et al., School Finance and Education Policy, pp. 138-141.

[12] Ronald C. Fisher, *State and Local Public Finance* (Glenview, IL: Scott, Foresman, 1988), p. 378.

[13] Guthrie et al., *School Finance and Education Policy*, p. 139.

[14] An effective tax rate is the amount of tax divided by the market value of property. Tax rates are often expressed in mills, where each mill is equal to $1 per $1,000 of assessed valuation. If property is assessed at its full market value, 10 mills is equivalent to an effective tax rate of 1 percent.

The higher the guaranteed revenue per pupil, the greater the equalization effect and the cost to the state.

Again, in theory, there need be no limit on the amount of locally raised revenue through GTB and GTY programs that state aid will match. In practice, states do limit the amount of aid provided by imposing an upper limit on the number of mills eligible for aid.

Table 6 shows that two states, Indiana and Wisconsin use a GTB or GTY grant program as the primary mechanism to distribute basic support aid. However, four states incorporate GTB grant programs as a second tier of basic support funding in conjunction with a primary foundation program. All states impose upper limits on the number of mills eligible for aid.

Full State Funding

Under full state funding, the financing of public education is a state responsibility. All educational funds are raised by statewide taxes.[15] Hawaii is the only state whose education finance system can be technically classified as full state funding.

Washington, by court ruling, was ordered to assume full responsibility for the basic education program for grades K-12. Because of the court ruling, Washington is constitutionally obligated to fully fund the basic support program. Based on this, Washington was classified as a full state funding program for the basic support program only. Local districts can impose taxes to provide supplementary support for non-basic programs.

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[15] Guthrie et al., *School Finance and Education Policy*, p. 141.

HIGHLIGHTS OF STATE DESCRIPTIONS

This section highlights some of the most important information in the state descriptions that comprise the major part of this book. Tables 9 through 15 cover seven general areas: basic state support programs, local support of schools, capital outlay and debt service, transportation, special education, other selected categorical programs and teacher retirement programs.[1]

The discussion of each table consists of two or three parts:

- Explanation of how complicated issues are treated
- Important findings
- Relevant information not included and cautions about interpretation; this section was omitted in discussing some tables.

In each table, states are listed in alphabetical order, with state aid reported in millions of dollars. All programs and amounts shown are for 1993-94 unless otherwise indicated. Variations in the degree of detail provided in program descriptions primarily reflect differences in the information provided by respondents. Rather than reduce all descriptions to a common level of generality, an attempt was made to reflect as many important details as were available, while maintaining a degree of consistency among states.

Table 9: Basic Support Programs: State Contribution

Explanation of concepts

In some states, where the basic support program is a combination of program types, the program can be characterized in more than one way. In assigning labels to the programs, an attempt was made to conform to the broad program descriptions contained in the section *Overview of Funding Approaches.*

The adjustment factors listed in Column 7 are handled in a variety of ways by the states. Some are incorporated through pupil weightings, while others have formulae separate from the basic support formula. Emphasis here was placed on the most common adjustments, regardless of how they were handled in the formula.

Column 8 reports the number and proportion of districts "off formula," and column 9 reports hold harmless provisions, aid minimums and recapture provisions. The authors of the state descriptions did not employ a consistent definition of "off formula." For example, if a state has a hold harmless provision, districts benefitting from it might be considered off formula. If, however, the author considers that provision to be part of the basic aid formula, "none" might be reported in column 8.

Hold harmless provisions generally override the normal operation of an aid formula to provide certain school districts with more aid than they would otherwise receive. There are at least four general kinds of hold harmless provisions: total dollars (the most common type), dollars per pupil, property value per pupil, and enrollment. The first two guarantee the district the same total aid or aid per pupil as was received in a previous year. The third and fourth types protect districts against a loss of aid as a result of increases in property value per pupil or decreases in enrollment. For many states, the type of hold harmless provision is not specified in the table.

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[1] Several categories of information in the state descriptions have not been summarized in this section for a variety of reasons. (1) Some are included in other parts of the introduction. (2) Some programs, for example those in X. *Other Categorical Programs*, are too varied to summarize in a uniform format. In addition, in many states, especially the less populous ones, the funding for these programs is miniscule. Among them, however, are several pilot and grant programs that are extremely innovative, especially in the areas of technology, services for students at risk, and restructuring.

The term "recapture" refers to provisions that reclaim or withhold funds for the state from districts that generate revenue per pupil above a specified amount.

Important findings

Twenty-four states provide more than 75% of all state aid through the basic support formula. Three states (Alabama, California, and South Dakota) provide less than 50% of state funding for education through basic support.

Twenty-four states exclusively use basic foundation programs, while 19 others include some form of foundation program. Two states have full state funding, and New Mexico funds more than 90% of total education expenditures at the state level. Percentage equalizing systems are used in four states and guaranteed tax base or tax yield in two states. North Carolina is the only state with an exclusively flat grant system.

Forty-three states use pupils as the basis for calculating basic support aid. Only five states use the number of teachers, instructional units or staff, and even in these states, units are based on enrollment data or class size.

Eight states adjust for sparsity, rural districts or geographic isolation, 12 for small size and 17 for enrollment growth. The latter adjustment usually is intended to cover changes in expenditures due to growth in enrollment after the time pupils are first counted for state aid purposes.

Only 21 states have no districts off formula, and the proportion off formula ranges up to 100%. For some of these states, the hold harmless provisions creating the situation are temporary mechanisms being used to phase in new basic support funding systems. The motivation in other states is to provide "something for everyone" — even the wealthiest districts. At the other end of the spectrum, Utah and Wyoming "recapture" some funds from districts whose local revenue exceeds a certain level.

Among the 48 states providing information, 26 reported having no hold harmless, aid minimum, or recapture provisions. Sixteen states have some type of hold harmless provision, and five have a minimum aid provision.

The reader is directed to the state descriptions for a more complete discussion of basic support formulae. Table 9 does not address several aspects of the formulae which are crucial to a thorough understanding.

First, not reflected in the table is the great variation in the scope of the programs covered by the basic support program. For example, some states fund only general operations through the basic support program, with various categorical programs funding special areas like capital outlay, transportation, etc. Other states' basic support programs incorporate some or all of these areas. These variations must be considered in interpreting the percent of state aid dedicated to basic support program funding.

States funding special program areas through the basic support formula, e.g., by means of pupil weightings, often did not indicate whether districts were required to spend the funds in the areas for which the funds were generated. This results in some confusion as to how much money was actually spent in which program areas.

There is a much wider variety of adjustment factors incorporated into the basic support formulae than this table indicates. Finally, the table does not provide any details regarding the pupil weighting schemes used by the states. The term "weighted pupil" is used throughout the program descriptions, representing both very simple and extremely complicated weighting schemes.

Table 10: Basic Support Programs: Local Contribution

Explanation of concepts

In this table, fiscal independence (Column 3) is characterized by the authority of school districts, as governmental units, to levy taxes in support of public education.

The information contained in Column 4 (Program Type) is repeated from Table 9 to provide a context for the local contribution information. It is suggested that Column 6 of Table 9 (Highlights of Basic Support Program) be considered along with this table.

In Column 6, "basis for determining local fiscal capacity" refers only to the factors used to calculate the local share for use in the basic support formula. In some states, other measures of fiscal capacity are used in other parts of the school finance system.

In referring to property value, several different terms are used by states — such as assessed value, equalized assessed value, and market value. In fact, nearly all states utilize equalization studies to adjust for differences in assessment practices among school districts.[2] This table, therefore, refers simply to "property valuation." A complete description of differences in assessment practices is beyond the scope of this study.

Important findings

In most states, all school districts are fiscally independent. In 15 states, however, at least a majority of the school districts are fiscally dependent. The definition of fiscal independence varies from state to state, so comparisons should be made with caution. The discussion of fiscally independent schools in the section *Overview of School Revenue Patterns* is based on a consistent definition used by the U. S. Census Bureau.

All states incorporate the property tax into the calculation of local fiscal capacity in some manner. Fourteen states include a measure of residents' income in this calculation, including three states where it is one of several factors in a composite index. Nebraska returns a portion of state income tax revenue to the school district where it originates.

Relevant information not included

Information on assessment practices and ratios is not reflected because it was not provided consistently by the authors of the state descriptions. Specific borrowing regulations and limits on taxation also are not discussed. Both of these are discussed in detail in each state's section on local revenue; in addition, limitations on local fundraising are contained in *Table 11: Capital Outlay and Debt Service.*

Table 11: Capital Outlay and Debt Service Programs

Explanation of concepts

Limited information on local fundraising was included (Column 6) because local borrowing is such an integral part of capital project funding in most states. This column includes information on debt limits, voter approval, impact fees and tax limitations.

Important findings

Thirty-seven states provide some state funding for capital projects, including states that address capital outlay through their basic support program. Thirteen states provide no funding in this area. The amounts provided and the percentage of state aid the amounts constitute vary widely from state to state. There is also considerable variation in debt limits, usually expressed as a percentage of district assessed valuation (see Column 6).

Seven states fund capital outlay and debt service through their basic support program, while 30 states (including Hawaii) have a separate funding mechanism.

In allocating funds for capital outlay and debt service, states often pay particular attention to facilities designed to alleviate racial isolation, asbestos abatement projects and facilities related to special education, vocational education and school district consolidation/cooperation.

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[2] An equalization study enables a state to offset differences in the ratio of assessed value to market value. For example, if property in one school district is assessed at 10% of market value while property in another school district is assessed at 20% of market value, they will be treated uniformly if their respective assessments are multiplied by factors of 10 and 5.

Table 12: Transportation Programs

Explanation of concepts

The amount of detail provided about transportation programs varied greatly from state to state. Column 4 (Primary Transportation Program) contains the most basic information about the programs. Column 5 (Additional Funds/Notes) contains miscellaneous additional information. For example, some states furnished interesting details regarding bus purchases, transportation of private school and special pupils, and other adjustments to the basic program. Where available, this information is included in Column 5.

When a state reported that funding was provided for non-public transportation, an attempt was made to determine whether transportation of public school special education students placed in non-public institutions was included. For the purpose of this table, such funding was not considered funding for non-public transportation. Rather, a "Y" in this column indicates that the state provides funding for the transportation of resident pupils attending private school.

Important findings

All responding states provided some funding for pupil transportation. Transportation funding varied from less than 1.0% (Michigan and Wisconsin) to 15.8% (Maine) as a proportion of total state aid. Sixteen states funded transportation through their basic support formula. The others used a wide variety of categorical formulae, some of which were complicated regression equations based on population density, distances and costs.

Thirteen states provided some funding for non-public transportation. Nearly all of these states were in the Northeast or Midwest.[3]

Table 13: Special Education Programs

Explanation of concepts

Special education is often funded through the basic support formula. As was mentioned earlier, this results in some confusion as to how much was spent. This problem is reflected in the large number of states with no funding amount listed in this table.

Important findings

The proportion of total state aid dedicated to special education ranged from 1.8% (West Virginia) to 21.1% (Louisiana), and exceeded 10.0% in 18 of the 38 states that provided this information.

About 21 states fund special education programs through their basic support programs, most often by weighting different categories of pupils or services.

Relevant information not included:

An interesting basis for comparing states' approaches to special education funding is the weighting system and/or service categories used in the programs. The relationship between the actual cost of providing services and the weightings varies from state to state. The weightings appear to vary from being close to arbitrary to being very directly related to actual costs. Providing detailed information about the weighting schemes is beyond the scope of this table, but such detail is important to consider when comparing these programs.

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[3] Connecticut, Delaware, Illinois, Iowa, Kansas, Louisiana, Michigan, Minnesota, New Jersey, New York, Pennsylvania, Rhode Island, and Wisconsin

Table 14: Selected Categorical Programs

Explanation of concepts

This table provides a quick overview of state programs for compensatory education, gifted and talented children, bilingual education, and pre-kindergarten education. A "Y" under a particular program indicates that state funds were allocated for the program, regardless of whether the funding was a separate categorical or incorporated into other programs, such as special education or basic support. In a few states, funds were available to districts to implement several types of programs, including those in this table. If state funds were available to districts in this manner, a "Y" was recorded.

As was mentioned earlier, it is possible that if weightings in the basic support formula are given for efforts in specific program areas, the funds may not be spent in the program area for which they were generated. The individual state sections should be referred to for further details.

Funding for Compensatory Education (Column 2) refers to state funding. A state would not receive a "Y" in this column based on receipt of Chapter 1 or other federal funds. A "Y" in Column 5 (Funding for Pre-K Education) indicates pre-school funding for other than special education pre-school programs, although these may also be funded.

In the directions to authors of state descriptions, they were instructed to omit programs with funding below $1 million. Some small programs consequently are not included here. This restriction, however, was not consistently observed, particularly in states with small populations; that is, a small number of programs with funding below $1 million are reflected in the table.

Important findings

Compensatory education is funded in 28 states. Most northeastern and southern states funded compensatory programs. Gifted and talented programs received funding in 40 states, bilingual education in 30 states, and pre-kindergarten programs in 36 of 47 responding states. Fifteen states funded all three of these areas—compensatory, bilingual and pre-K education, perhaps indicating a focus on programming for students at risk, or a relatively high presence of at-risk students in these states.

Relevant information not included

The reader is directed to the section in each state contribution titled Other Categorical Programs. This section contains small and often innovative programs, many of which serve students at-risk.

Table 15: Teacher Retirement Programs

Explanation of concepts

The state contribution to FICA (Social Security), if any, is not included in state funding (Column 2). In many states, the state contribution represents the state's assumption of what is really the employer (district) contribution. In these instances, there is "Y" in the state contribution column and an "N" in the district contribution column.

Important findings

Thirty-five of 49 responding states contribute directly to teacher retirement funds. Districts contribute in 33 states, and teachers in 38 states. There are only nine states where all three parties contribute. Among states that make a contribution, the percent of total state aid represented by teacher retirement contributions ranges from 3.0% (Virginia) to 19.9% (South Carolina). Among the other 15 (?) states, some may contribute indirectly through the general support program. Sixteen of 43 responding states contribute to FICA.

Table 9. Basic Support Programs: State Contribution

1 State	2 Total State Funds (In millions)	3 Amount as % of State Aid	4 Program Type	5 Units	6 Highlights of Basic Support Program	7 Adjustment Factors	8 Districts Off Formula	9 Hold Harmless, Aid Minimums & Recapture Provisions
Alabama	$754.9	41%	Modified foundation	Teachers	TUs are earned by districts based on ADA & specified class size divisors. (New lower divisors being phased in through the yr. 2000 will generate more TUs.); salary allocations based on acad. degree, except transp., all other prog. areas are funded by multiplying a legislated amt. by the # of TUs; additional prog. funds 26 categoricals	Enrollment growth/decline	None	None
Alaska	595 (est.)	NA	Foundation	Instructional	Foundation amt. for each dist. = value of instructional unit (IU) X # of units X regional cost differential less the local contribution	Cost differential Enrollment decline	3	None
Arizona	1,461.8	97.1%	Foundation	Pupils	Aid = $2440/WADM for M&O less the local contribution (not required); districts need not spend funds on progs. or students used to generate funds	Sparcity, small size, growth & higher salary costs of more experienced tchrs.	21	None
Arkansas	901.4	76.7%	Foundation: 2-tiered	Pupils	Local resources /WADM subtracted from state equalization rate; equalization rate = (total approp. state aid + total of local resources statewide)/ WADM; 2nd tier for least wealthy districts only; qualifying Tier 2 tax rate is 25 mills to receive full amt.	Current year growth	3	None
California	7,309.3	49.0%	Foundation (revenue limits) w/ flat grant component	Pupils	Foundation guarantee varies w/ dist. type, size & prior yr. amt. & is subject to numerous other adjustments; state Aid = diff. b/w total adjusted revenue limit (guarantee) & local tax receipts; a flat grant of $120/ADA or $2400 /dist. is part of every districts's guarantee	Small size & 9 other adjustments may be made to foundation limits	NA	None
Colorado (1994-95)	1,416.0	93.7%	Modified foundation	Pupils	Dist. prog. = (per-pupil funding x pupil count) + at-risk funding; Per-pupil funding = [(Base x Personnel Costs Factor x Cost of Living factor) + (Base x Nonpersonnel Costs Factor)] x Size Factor, minimum per-pupil funding = $3,975	Personnel & nonpersonnel cost factors; cost of living factor; size factor; plus 5 other adjustments	26	Hold harmless
Connecticut	974.1	62.5%	Foundation	Pupils	Aid = state % X $4,800 X wtd. pupil count; state % = 1 - (town wealth/state guaranteed wealth); state guaranteed wealth is 1.5361 times the state median town wealth	For towns that are members of K-12, or high sch. regional districts	98	Hold harmless, minimum increases
Delaware	383.8	83.1%	Flat grant w/ equalization component	Pupils	State pays a specified amt. per units of pupils for salaries, $3856 per TU for all costs other than salaries & a wealth equalized amt. which can be used for salaries & other costs	None	None	None

(Continued)

NA = Information not available from material received DNA = Does not apply

Table 9. Basic Support Programs: State Contribution (Continued)

1 State	2 Total State Funds (In millions)	3 Amount as % of State Aid	4 Program Type	5 Units	6 Highlights of Basic Support Program	7 Adjustment Factors	8 Districts Off Formula	9 Hold Harmless, Aid Minimums & Recapture Provisions
Florida	$5010.0	93.2%	Foundation	Pupils	Aid = wtd. pupil count for each ed. prog. X $2501.05 X dist. cost differential less the local contribution; supplementary allocations available to eligible districts; eg. extended day, salary improvement incentive	Cost differential, declining enrollment, sparsity.	None	Hold Harmless
Georgia	3100.0	95%	Foundation w/ guaranteed tax base component	Pupils	Aid = wtd. pupil count X $1638.66 less the local contribution; power equalization component applies to districts below 90th percentile in prop. wealth/pupil who levy taxes above 5 mills; for each 3.25 mills above 5 mills, state pays diff. b/w amt. generated & amt. that would be generated by dist. at the 90th percentile; supplementary allocations available to eligible districts	Sparsity, growth, consolidation	None	None
Hawaii	677.2	DNA	Full state funding	DNA	Funding determined by legislature based on a biannual program budget system	None	DNA	None
Idaho	NA	NA*	Foundation	Pupils	Aid = Unit factor ($42,874.62) X # of units in dist less the local contribution	Enr. growth or decline	NA	1 yr. hold harmless against decreased enr.; hold harmless against increasing market value; dist. will not receive less than yr. before
Illinois	2186.3	60.5%	Modified foundation w/flat grant component	Pupils	Aid = wtd. pupil count X [(state guaranteed wealth/pupil - dist. wealth/pupil) X "computational" tax rate]; both state wealth/pupil & local tax rate vary depending on type of dist.; state guaranteed foundation level = $2741.30; alternative aid formulae for wealthy & very wealthy districts	None	None	None
Indiana	2017.9	73.8%	Guaranteed tax base	Pupils	Beginning calendar year 1994, new GTB formula to be phased in over 6 yrs. State aid = allowable expenditures - local share. Local share = required tax applied to GTB matrix.	None	182 dist. received minimum guarantee	None
Iowa	1245.4	93.9%	Foundation w/2nd local discretionary tier	Pupils	Aid = dist. cost/pupil X pupils. Dist. cost/pupil based on historical per-pupil spending in dist. State regular prog. cost/pupil = $3406.	None	None	Hold Harmless
Kansas	1370.0	84.8%	Foundation	Pupils	Aid = (BSAPP X Wtd.FTE) - Local Effort. BSAPP = $3600. Also Supplemental Aid for LOB; Bond & Interest Aid.	None	None	None

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 9. Basic Support Programs: State Contribution (Continued)

1 State	2 Total State Funds (In millions)	3 Amount as % of State Aid	4 Program Type	5 Units	6 Highlights of Basic Support Program	7 Adjustment Factors	8 Districts Off Formula	9 Hold Harmless, Aid Minimums & Recapture Provisions
Kentucky	$1591.4	72.6%	Foundation w/ guaranteed tax yield component	Pupils	Aid = pupil count X $2420, less the local contribution; additional state funding for all but wealthiest districts through state matching prog. & leving taxes above the required minimum	Growth	None	Hold Harmless
Louisiana	1753.0	91.6%	Foundation Level 1 & Level 2	Pupils	Level 1: Aid based on district's proportion of total state weighted membership X district fiscal capacity index. Level 2: State matches percentage of revenue generated above level 1 local effort based on local fiscal capacity.	None	All; due to phase-in & Hold Harmless	Hold Harmless
Maine	348.2	56.1%	Modified foundation	Pupils	Total allocation = (#K-12 pupils X $3734) - LE; Operating cost subsidy = ((#K-8 pupils X $3,343) + (#9-12 pupils X $4756)) - LE	Geographic isolation	225	Minimum subsidy & Hold Harmless
Maryland	1224.7	58.9%	Foundation w/ flat grant component	Pupils	Aid = pupil count X $3167, less the local contribution.	Set aside for vocational ed.	None	None
Massachusetts	NA	NA	Foundation	Pupils	Found. budget based on $5500 per pupil. Spending cap is calculatd by substracting previous yrs. expenditures from foundation budget. Foundation aid = spending gap - required local effort of $9.40 per $1,000.	Wage adjustment factor	None	Hold Harmless based on "chapter 70 base aid" & minimum aid of $25 per pupil
Michigan (1994-95)	7245	87.3%	Foundation	Pupils	Aid = (Found. Amt. X #pupils) - Local Effort. Found. Amt. = $5000. However, due to phase in of new formula, Found. amts. varied from $4200 to $6660.	Poverty	None	Hold Harmless
Minnesota	1892.2	76.3%	Foundation	Pupils	Aid = (WADM X $3050, plus compensatory, training & experience & sparsity revenue which are driven by separate formulae) less the local contribution; plus supplemental revenue	See aid components under program description	4	None
Mississippi	860.7	81.3%	Foundation	Teachers	Salaries provided for tchr. units based on # of students per unit for regular, special & voc. ed. & on salary schedules; add. allocations for administration costs, support service, fixed charges & transp.	None	None	None
Missouri	936.0	55.8%	Foundation based on Guaranteed tax base concept	Pupils	Aid = (number of pupils X GTB X local tax rate) - certain local receipts + $611 X "free and reduced lunch" count	Enr. growth income factor	81 receive min. aid	Minimum aid

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 9. Basic Support Programs: State Contribution (Continued)

1 State	2 Total State Funds (In millions)	3 Amount as % of State Aid	4 Program Type	5 Units	6 Highlights of Basic Support Program	7 Adjustment Factors	8 Districts Off Formula	9 Hold Harmless, Aid Minimums & Recapture Provisions
Montana	$382.5	85.2%	Foundation w/ guaranteed tax base component	Pupils	Direct state aid = 40% of district basic and per ANB entitlement. Districts also receive special education funds. BASE budget area not funded by direct state aid or spec. ed. fund eligible for GTB supplements	None	None	None
Nebraska	383.0	71.3%	Foundation	Pupils	Foundation amt. varies w/ size & grade groupings; aid = pupil count X foundation amt., less the local contribution	Size; 25% increase in foundation amts. for districts for percentage of students residing on Indian land	519 receive no equalization aid	Hold harmless
Nevada	739.7	95.3%	Foundation	Pupils	Aid = (pupil count X foundation amt.) + SE units, less the mandatory local share; foundation amt determined for each dist; additional funds available to districts whose expenditure projections exceed revenue projections for each yr. of the biennium	Enr. decline: larger of current or preceding yr.'s pupil count must be used to calc. aid	1	None
New Hampshire	47.1	52.8%	Foundation	Pupils	Aid = (wtd. pupils X state average per pupil cost) X state percent. Aid for avg. district targeted at 8% of operating expenditure	None	71	NA
New Jersey	2538.2	51.7%	Foundation	Pupils	Under Public School Reform Act of 1992, non-special needs districts received 104% of 1992-93 aid and special needs districts received 109.42% of 1992-93 aid.	None	196	Transition aid 30 special needs dist. and 265 districts.
New Mexico	1004.1	87.6%	Foundation, near full state funding	Pupils	Foundation amt. varies based on calculated program costs & various adjustments; total funds represent more than 90% of all ed. expenditures statewide	Size, sparsity, growth, training and experience index	1	None
New York	5675.9	61.0%	Foundation: percentage equalizing w/ ceiling & flat grant component	Pupils	Aid = ($3761 + ceiling adj.) X State Sharing Ratio, or $400 per pupil, whichever is greater. State sharing ratio is highest value obtained from 4 different calculations, ranging from .88 to 0.	Growth, extraordinary needs, tax effort and equalization	568; 375 had aid withheld under maximum increase provision, and 193 save harmless	Save-harmless maximum increase
North Carolina	3564.5	95.9%	Flat grant; adjusted	Pupils	Allotment in various categories based on dist. % of statewide ADM; certified staff allocated by actual cost of position, other categories by specified dollars	Small size & rural schools	None	None
North Dakota	191.8	78.1%	Foundation	Pupils	Aid = wtd. pupil count X $1570, less the local contribution	None	4	None

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 9. Basic Support Programs: State Contribution (Continued)

1 State	2 Total State Funds (In millions)	3 Amount as % of State Aid	4 Program Type	5 Units	6 Highlights of Basic Support Program	7 Adjustment Factors	8 Districts Off Formula	9 Hold Harmless, Aid Minimums & Recapture Provisions
Ohio	$3068.0	81.6%	Foundation	Pupils	Aid = pupil count X $2871 X cost factor, less the local contribution	Municipal overburden, declining enr., small size	281	Hold harmless provision
Oklahoma	1349.2	89.9%	Foundation w/ equalized salary incentive	Pupils	Aid = wtd. pupil count X $1139, less the local contribution; salary incentive = $55.12 per mill per wtd. pupil for each mill levied above 15, less equalized share	Enr. growth	27	None
Oregon	1017.0	86.3%	Foundation	Pupils	Aid = wtd. pupil count X adjusted target grant X a funding percentage, less the local share; target grant = $4500, adjusted based on avg. teacher seniority	Size, sparsity	None	NA
Pennsylvania	3091.3	65.5%	Foundation: percentage equalizing w/ ceiling	Pupils	Aid = pupil count X $2550 X aid ratio; aid ratio = (.6 X Market Value aid ratio) + (.4 X personal income aid ratio). Supplements available to eligible districts	Small district, growth, poverty	None	Hold harmless plus minimum 2% increase
Rhode Island	263.2	69.3%	Percentage equalizing	Pupils	Aid = District approved expenditures X state share ratio. Reference year for expenditures is 2 FY's prior	Regionalized school districts & literacy improvement targeting	5	Minimum reimbursement of 9%
South Carolina	850.1	58.1%	Foundation	Pupils	State aid = (wtd. adm. X base student cost) - (state wtd. adm. X BSC X Index X .3); BSC = $1581; Index = district index of taxpaying ability	None	1	None
South Dakota	75.0	47.1%	Foundation: reimbursement type	None	Aid = district GFEXP - var. dist. rev. - LE; LE based on district & state tax rate & market values for agricultural & non-agricultural properties	None	NA	None
Tennessee	NA	NA	Foundation	Pupils	Basic education program aid = calculated district foundation amt. - LE; District foundation amount based on 42 components; LE based on multiple regression determined fiscal capacity measure	None	None	Hold harmless based on 1990-91 TFP funding
Texas	7325.0	100.0%	Foundation w/ guaranteed yield component	Pupils	Tier I aid = pupil count X $2300, less the local share; $2300 gets adjusted by cost of ed. index; Tier II guarantees $20.55 per pupil for each cent levied above $.86/$100 of AV, the required rate	Sparsity, small size, cost of ed. index	None Tier 1, 40% Tier 2	None
Utah	953.0	100.0%	Foundation	Pupils	Aid = wtd. pupil units X $1539, less the local share; if local share exceeds the guarantee, surplus funds are recaptured; 4 major categories of progs. generate wtd. pupil units (WPUs)	Small size accounted for in formula as a prog. category	None	Recapture

(Continued)

NA = Information not available from material received   DNA = Does not apply

Table 9. Basic Support Programs: State Contribution (Continued)

1 State	2 Total State Funds (In millions)	3 Amount as % of State Aid	4 Program Type	5 Units	6 Highlights of Basic Support Program	7 Adjustment Factors	8 Districts Off Formula	9 Hold Harmless, Aid Minimums & Recapture Provisions
Vermont	$139.7	65.0%	Foundation	Pupils	Aid = wtd. pupil count X $4025, less the tax capability; minimum aid = $50 per pupil	Foundation tax rate is adjusted for income	130	Maximum loss provision whereby dist. cannot lose more than $150/ pupil from 1 yr. to the next
Virginia	1381.6	57.6%	Foundation	Pupils	Aid = pupil count X prog. costs, less the local share; prog. costs are calculated for each dist.	Adj. in per pupil costs for Washington D.C. area to reflect higher cost of living	None	None
Washington	2958.0	78.3%	Full state funding	Staff	Enr. converted into staff units which are multiplied by state salary & benefits levels; allocations also made for non-employee related costs	Small size, growth	None	None
West Virginia	1107.0	100.0%	Foundation	Instructional Units	Total foundation program costs - local share foundation program costs based on 7 types of allowances	Enr. growth	None	None
Wisconsin	1735.4	79.4%	2-tiered Guaranteed Tax Base	Pupils	Aid = diff. b/w guaranteed tax base & local tax base; primary cost ceiling = $5453; for costs above primary ceiling, a lower guaranteed base is used; guaranteed base "floats" high enough to distribute amt. appropriated	None	54	Minimum aid hold harmless
Wyoming (1992-93)	245.3	71.3%	Foundation	Pupils	Pupils are used to compute classroom units (CRUs) according to a schedule of wts.; guaranteed CRU unit value = $92,331; dist. receives no aid if local resources exceed 109% of foundation amt; amt. above 109% is recaptured	Growth	5	Recapture of local resources 109.0% above required local effort
Total Amt.	$85,339.9							

NA = Information not available from material received   DNA = Does not apply

Table 10. Basic Support Programs: Local Contribution

1	2	3	4	5	6
State	# of School Districts	Fiscal Indep	Program Type	Local Contribution	Basis for Determing Local Capacity for Basic Support Formula Purposes
Alabama	127	N	Modified foundation	$4.7 m. statewide; calculated locally by multiplying county index of economic ability by $4.7 m.; districts also required to raise equiv. of 10 mills	Index of economic ability, or, the avg. of AV index & eco. index of financial ability; AV index = board's % of state AV; eco. index = avg. of 6 wtd. factors: sales tax, auto license, pers. income tax, manufacturing value added & farm income value
Alaska	34, plus 20 Regional Attendance Areas	N	Foundation	4 mills on FV of dist. or 35% of guarantee amt., whichever is smaller; 90% of federal PL 81-874 grants deducted from guarantee amt.	Property valuation, amt. of federal PL81-874 grant
Arizona	226	222Y 4N	Foundation	$2.36/$100 of AV, $4.72 for unified districts & elem. districts not in a high school district; districts not required to levy these rates to receive payments; additional county equalization tax of $0.53/$100 of AV	Property valuation
Arkansas	315	Y	Foundation: 2-tiered	25 mills on local property; 75% of misc. funds; local resources /WADM are adjusted as follows: total local res. - [($1200 -local res./WADM) X # of tchrs. w/ Masters]/WADM	Property valuation
California	1002	N	Foundation (revenue limits) w/ flat grant component	1% property tax levied by each county; dist. receives amt. proportional to its share of the total prop. tax collections in the county prior to passage of Proposition 13 in 1978; state reimbursement for $7000 homeowner exemption; timber yield taxes & several other sources	Property valuation. Revenue limits based on historic expenditure patterns.
Colorado (1994-95)	176	Y	Modified foundation	Required prop. tax levy. Growth in prop. tax rates limited to rate of inflation and enrollment growth.	Property valuation, & specific ownership tax
Connecticut	166	N	Foundation	Difference of MER - ECS	Property valuation & per capita income
Delaware	19	Y	Flat grant w/equalization component	Districts must raise local revenues as matching for equalized aid	Property valuation
Florida	67	Y	Foundation	Required millage rate on 95% of district AV determined for each dist. based on assessment ratios; rates range from 6.947 to 6.418 mills; local effort may not exceed 90% of district's total foundation amt.	Property valuation
Georgia	182	159 Y 23N	Foundation w/ guaranteed tax base component	5 mills on assessed prop. equalized at 40% of market value.	Property valuation
Hawaii	1	N	Full state funding	DNA	DNA
Idaho	115	Y	Foundation	Amt. raised by tax rate of .36% on market value is subtracted from foundation amt., though districts are not required to levy that amt. to receive aid	Property valuation

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 10. Basic Support Programs: Local Contribution (Continued)

1	2	3	4	5	6
State	**# of School Districts**	**Fiscal Indep**	**Program Type**	**Local Contribution**	**Basis for Determing Local Capacity for Basic Support Formula Purposes**
Illinois	925	Y	Modified foundation/ w/ flat grant component	Formula requires computational tax rates of 1.90%, 1.10% or 2.76% depending on dist. type. However, no mandatory local contribution is required.	Property valuation
Indiana	294	Y	Guaranteed tax base	Target prop. tax rate x AV	Property valuation; auto excise tax & financial institutions tax
Iowa	397	Y	Foundation w/ 2nd local discretionary tier.	$5.40/$1000 of AV	Property valuation
Kansas	304	Y	Foundation	Property tax rate of 35 mills plus other revenues.	Property valuation, fund balances, P.L. 874 receipts, motor vehicle property tax, revenue in lieu of taxes
Kentucky	176	Y	Foundation w/ guaranteed tax yield component	Required $.30/$100 of AV; additional levy to participate in matching prog.	Property valuation, motor vehicle taxes & permissive taxes
Louisiana	66	Y	Foundation	Local share based on fiscal capacity index. Local share not mandatory.	Property valuation & sales tax.
Maine	284	73 Y 211 N	Modified foundation	Local share = operating costs mill rate x Fiscal Capacity.	Property valuation
Maryland	24	N	Foundation w/ flat grant component	Each dist. contributes as its local share its percentage of the state total taxable capacity	Net taxable income based on residents' income tax returns & property valuation
Massachusetts	361	N	Foundation	Based on ratio of local wealth to state wealth	Property valuation & Average Income.
Michigan (1994-95)	560	Y	Foundation	18 mills x AV	Property valuation
Minnesota	395	Y	Foundation	Maximum levy 30.7% of assessed property valuation	Property valuation
Mississippi	149	N	Foundation	Local share = local economic index x $22 mill; uniform minimum levy (33.04 mills) or maximum yield/pupil ($614); state makes up diff. if taxes & other revenue sources do not produce $614	Property valuation, economic index, severance tax on oil, gas & timber
Missouri	530	Y	Foundation based on guaranteed tax base	$1.25/$100 AV as minimum required tax rate. $2.75/$100 AV required for increase in state aid.	Property valuation w/ a levy adjusted for income
Montana	495	Y	Foundation w/GTB	No local share required.	Property valuation
Nebraska	692	Y	Foundation	Mathematically derived rate used to balance the equalization equation; rate ranged from $.4809/$100 of AV to $1.2452/$100 of AV for diff. types of districts	Property valuation, other receipts & return of 20% of dist. residents' income taxes to districts
Nevada	17	Y	Foundation	Local Sch. Support Sales Tax of $.0225 + $.25/$100 of AV	Sales tax & property valuation

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 10. Basic Support Programs: Local Contribution (Continued)

1 State	2 # of School Districts	3 Fiscal Indep	4 Program Type	5 Local Contribution	6 Basis for Determing Local Capacity for Basic Support Formula Purposes
New Hampshire	176	N, except for capital city	Foundation	Town measures on property wealth, income & tax effort are compared to state avg.; statewide, 90% of educ. costs are funded locally	Property valuation, income wealth & school tax effort
New Jersey	580	Y	Foundation	(.5 X dist. AV X property value multiplier) + (.5 X dist. income X income multiplier); multipliers determined annually by state	Property valuation & district aggregate income
New Mexico	88	Y	Foundation, near full state funding	95% of 0.5 mills of AV local levy, 95% of federal forest reserve funds & 95% of P.L. 874 SE funds except those for students living on Indian lands & those designated for special ed.	Property valuation, amount of federal funds received
New York	691	686 Y 5 N	Foundation: Percentage equalizing w/ ceiling & flat grant component	The difference b/w the state share (state sharing ratio) & dist. operating expenditures	Property valuation & adjusted gross personal income based on tax returns
North Carolina	120	2 Y 118N	Flat grant: Adjusted	None required, but avg. is 23.5% of dist. total annual budget	DNA, but property valuation is source of local revenue
North Dakota	260	Y	Foundation	23 mill local deduct, not required	Property valuation
Ohio	611	Y	Foundation	Mandatory 20 mill property tax levy	Property valuation
Oklahoma	554	Y	Foundation w/ equalized salary incentive	Districts limited to 39 mills for operational purposes.	Property valuation
Oregon	277	Y	Foundation	Most general revenues received by districts; no mandatory level	Property valuation, timber revenue, federal aid & other sources
Pennsylvania	501	Y, except Philadelphia	Foundation: Percentage equalizing w/ ceiling	18 mills x 1992 AV + .5% x 1992 personal income; not mandatory.	Property valuation & personal income
Rhode Island	37	N	Percentage equalizing	Local contribution not required.	Property valuation, adjusted for median family income
South Carolina	91	20Y 71 N	Foundation	Total statewide local share (about 30%) X dist. index of taxpaying ability; index = dist. full value/pupil compared to state avg. full value/pupil	Property valuation
South Dakota	178	Y	Foundation: Reimbursement Type	Local contribution based on statewide average tax rate applied to full market value of agricultural and non-agricultural property	Property valuation
Tennessee	138	N	Foundation	District fiscal capacity = district's % of statewide total.	Regression based fiscal capacity measures. Variables include AV, per-capita income, and taxable sales.

(Continued)

NA = Information not available from material received   DNA = Does not apply

Table 10. Basic Support Programs: Local Contribution (Continued)

1	2	3	4	5	6
State	# of School Districts	Fiscal Indep	Program Type	Local Contribution	Basis for Determing Local Capacity for Basic Support Formula Purposes
Texas	1052	Y	Foundation w/ guaranteed yield component	$0.86/$100 of AV	Property valuation
Utah	40	Y	Foundation	Required tax rate of 4.275 mills	Property valuation
Vermont	251	Y	Foundation	$1.19946/$100 of MV	Property valuation & income
Virginia	137	N	Foundation	Based on the local composite index	Local composite index in which prop. value is wtd. at 50%, adj. gross income at 40% & local taxable retail sales at 10%
Washington	296	Y	Full state funding	None	DNA
West Virginia	55	Y	Foundation	Local share = 98% of regular levy rates times AV reduced by 5%	Property valuation
Wisconsin	427	Y	2-tiered guaranteed tax base	District's equalized value as portion of guaranteed tax base X aidable costs	Property valuation
Wyoming (1992-93)	49	Y	Foundation	6 mills against county AV + 25 mills, land income payments from the state, fines & forfeitures, & other sources	Property valuation & sources listed under local contribution column

NA = Information not available from material received

DNA = Does not apply

Table 11. Capital Outlay and Debt Service Programs

1 State	2 Total State Funding (In Millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs	6 Limits on Local Funding
Alabama	$1.4	<1.0%	Funded through basic support prog.; $55 X # of earned tchr. units at each local board		
Alaska	NA	NA	State pays 80% of debt service on SED approved construction projects begun before 1990 ($111 m.)	Additional $22.2 m. for capital construction projects	
Arizona	NA	NA	Funded through basic support prog.; foundation program guarantees $221.33/K-8 student, $262.69/9-12 student, a capital levy amt. of 171.97/student that can only be used for capital outlay		General obligation bonds constitutionally limited to 15% of AV in elem & h.s. districts, 30% in unified districts; voter approval required
Arkansas	0.0	0.0%	$17 m. in 3 revolving loan funds; dist. may borrow up to $300,000 for 6 yrs; max. interest is 7 percent		Voter approval required; millage must cover 150% of bldg. cost; debt limited to 22% of AV, 25% w/ State BOE approval
California	882.0	5.9%	State issues bonds to pay for school construction, then leases facilities to districts at $1.00/yr. for 40 yrs., after which the dist. owns the facility; dist. must contribute to the state the max. amt. it could raise from developers' fees during the construction, until the certif. of occupancy is received	Remainder of $ support emergency temp. classrooms, deferred maintenance, yr.-round sch. & asbestos abatement programs	Developers' fees levied on new construction limited to $1.72/sq.ft. for residential projects, $.28 for commercial/industrial; 2/3 majority needed to approve bond measure
Colorado (1994-95)	NA	NA	Funded through basic support formula;districts required to budget at least $202/pupil from basic support funding for capital outlay		Levy to pay principal & interest on bonds is exempt from tax & spending limitations. Bonded debt limited to greater of 20% AV or 6% of actual value
Connecticut	137.5	8.8%	Percentage equalized based on town wealth/capita; funding ranges from 20-80% of eligible costs for new construction, expansion & renovation	State aid for principal & interest on municipal sch. construction bonds	Only municipalities, not local dist., can issue bonds; value of all sch. construction bonds cannot exceed 4.5 times municipality's prev. yr. tax revenue
Delaware	NA	NA	State funds 60% of regular school outlay & 100% of voc.& SE facility outlay; starting in 1992, these funds are equalized based on an ability to pay index; max. local share still 40%	$4.8 m. for 60% of scheduled maintenance & repair costs, allocations based on enr.; $1.1 m for unscheduled repairs, based on enr., bldg. age & other factors.	Debt limit = 10% of AV; voter approval required for bond sales
Florida	544.0	9.2%	Funds allocated through a formula based on "a percentage of FTE membership & growth in FTE membership"*	Funds for Special Facilities Construction availableon case by case basis when district needs are not met by normal funding procedures.	
Georgia	15.6	<1.0%	Equalized based on property wealth per pupil; funding ranges from 75-90%. 5-yr. facilities plans must be approved by SED.		Dist. cannot sell bonds in excess of 10% taxable property value; referenda must be approved by majority of voters

(Continued)

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DNA = Does not apply

Table 11. Capital Outlay and Debt Service Programs (Continued)

1 State	2 Total State Funding (In Millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs	6 Limits on Local Funding
Hawaii	$94.7	NA	All capital projects must be approved by the legislature & are funded entirely by current state tax revenues		
Idaho	0.0	0.0%	No state aid available	No state aid available	Multi-yr. tax levy to create School Plant Facilities Fund and to issue bonds requires 2/3 majority vote
Illinois	0.0	0.0%	No state aid provided		
Indiana	NA	NA	Flat grant of $40/ADA	Districts can aply for low-interest loans from Common School Fund	$1.25 maximum per $100 of AV in district Capital Projects Funds; state constitutional debt limitation in dist. of 2% of AV
Iowa	0.0	0.0%	No state aid available	No state aid available	Bonds require 60% voter approval; debt limit = 5% of AV, max. length 20 yrs.; other limitations apply to "schoolhouse levy," "site levy" & ed. & recreational tax"
Kansas	7.4	<1.0%	Capital outlay aid included in GSA as a weighted factor		Districts must seek approval from state board of tax appeals for authority to levy property tax
Kentucky	53.7	2.7%	$100/pupil through basic foundation prog.	Some equalized funding based on property wealth; additional funds based on proportion of districts' unmet facilities needs re: total statewide unmet needs	
Louisiana	0.0	0.0%	No state aid available	No state aid available	State constitutional debt limit of 25% of AV; voter approval needed to issue bonds
Maine	47.9	7.7%	State subsidizes principal & int. costs for approved projects, leases and insured value factor costs		Maine Municipal Bond Bank established to market large bond issues. Voter approval required for bond issues.
Maryland	84.1	4.0%	Statewide, state share of approved project costs = 60%; local share is 25%, 35%, 45% or 50%, depending on district's wealth class ($131 m.)	$2.1 m. for payment of all local debt service on bonds issued before 6/30/67	
Massachusetts	NA	NA	Percentage equalized; funding ranges from 50-90%	90% funding for constuction of facilities to alleviate racial isolation	
Michigan (1994-95)	0.0	0.0%	No state aid available	Bonds approved by Supt. of Public Instruction are guaranteed 100% by the state; through School Bond Loan Prog. dist. may set tax rate at 7 mills & borrow up to 90% of funds needed to meet annual bond payments	Total bonded indebtedness may not exceed 5% of equalized valuation on bonds issued without voter approval. With voter approval bonds for 15% of AV may be issued for 30 years

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 11. Capital Outlay and Debt Service Programs (Continued)

1 State	2 Total State Funding (In Millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs	6 Limits on Local Funding
Minnesota	$118.0	4.8%	Facility Aid: $128/WADM minus a required equalized local levy Equipment Aid: $63/WADM minus a required equalized local levy Health & Safety Aid: (approved exp. since 1985 minus total aid & levy receipts since 1985) minus current yr. required levy	$14 million for debt service	Debt limited to 10% of market value of all taxable property
Mississippi	NA	NA	75% of funds for capital improvement from sale of state school bonds, limited to $100m outstanding at any time	$24/ADA to be accrued for capital outlay; districts can borrow from state against future yrs.' grants	Debt limit = 15% of AV; voter approval, w/ 60% majority required to issue bonds; notes & certif. of indebtedness limited to amt. (princ. & int.) that a 3 mill levy could repay over a max. of 10 yrs.
Missouri	0.0	0.0%	No state aid available	No state aid available	Debt limit = 10% of AV. 20 year max. on bonds
Montana	0.0	0.0%	No state aid available	$1 million for debt service	Debt limit = 45% of taxable valuation; voter approval required
Nebraska	Less than 1.0	NA	In Lieu of School Land Tax, Homestead Exemption progs. & energy grants		Debt limit = 14% of actual valuation for some classes of school districts; voter approval required
Nevada	0.0	0.0%	No state aid available	No state aid available	Voter approval required for bonds & to levy a pay-as-you-go tax of $.75/$100 of AV in counties w/ < 25,000 pupils, $.50/$100 in counties w/ > than 25,000; Tax Commission approved tax on residential construction limited to $1000
New Hampshire	14.7	16.5%	State pays 30-55% of annual principal payments on construction projects	An additional 5% is paid to regional school districts as incentive for consolidation	Two-thirds majority vote required to issue bonds
New Jersey	137.1	2.8%	Debt svc. aid = district's debt svc. X percent of foundation aid dist. receives		
New Mexico	28.6	2.5%	$21.3 m. for emergency outlay needs which cannot be met by other sources, distributed by appointed council; $7.3 m. in equalized funds based on prog. units & prop. wealth		Voter approval required to issue bonds, (debt limit = 6% of AV), to impose tax up to $10/$1000 of taxable prop. value up to 5 yrs. & to impose tax up to $2/$1000 for up to 3 yrs. for certain capital needs
New York	452.0	4.8%	Percentage equalized, based on expenditures approved by the SED; Equalized based on property wealth per pupil compared to the state avg.; 184 districts benefit from option to use most beneficial wealth ratio since 1981-82		Voter approval required for acquisition, construction, or reconstruction of facilities

(Continued)

NA = Information not available from material received

DNA = Does not apply

Table 11. Capital Outlay and Debt Service Programs (Continued)

1 State	2 Total State Funding (In Millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs	6 Limits on Local Funding
North Carolina	$1,000 + 14% of monthly corporate income taxes	NA	Funds allocated to county gov based on county ADM; county distributes to districts for use in state approved capital projects, county need not based on ADM	Critical School Facility Needs Fund: grants awarded based on inability of districts to meet minimum facility standards from other funding sources	Bond sales require voter approval; district bond sales limited to maximum debt ceiling of 8% of county tax base
North Dakota	0.0	0.0%	No state aid available	State school construction fund provides up to $3 m. in low interest loans at 2.5% interest	60% majority required to issue bonds (debt limit = 10% of AV); Up to 20 mills may be levied to support voter approved building fund
Ohio	46.6	1.2%	Covers 50% of net cost of public school buses, 100% for buses purchased to transport non-public & handicapped pupils	State school building assistance fund & vocational education equipment	Voter approval required to issue bonds (debt limit = 9% of AV) which must be retired w/in 23 yrs.; 5 yr. limit on levy that funds Permanent Improvement Fund
Oklahoma	0.0	0.0%	No state aid available	No state aid available	Bonds must be approved by 60% of voters, debt limit = 10% of AV;
Oregon	0.0	0.0%	No state aid available	No state aid available	Voter approval required to issue bonds (debt limit = .55% of market value for each grade K-8, .75% for each grade 9-12
Pennsylvania	184.0	3.9%	Percentage equalized, based on SED approved expenditures; equalized based on market value aid ratio or relative market value wealth per teacher unit of 30 elem. or 22 sec. students, whichever is higher		Non-voted debt cannot exceed 250% of borrowing base (which is avg. of district's total rev. for 3 preceding yrs.). Authority debt limited to 300% of borrowing base.
Rhode Island	17.0	4.5%	Percentage equalized; bond interest payments considered reimbursable expenses; minimum aid ratio = 30%		Each of the 39 municipalities have locally determined procedures for capital project financing
South Carolina	15.4	1.1%	$30 per grade 1-12 pupil and $15 per K pupil, whether or not construction is planned; districts can save the $30 each yr.		Districts can borrow up to 8% of AV w/out referendum; 8% can be exceeded by referendum stating exact amt. to be borrowed & use for money
South Dakota	0.0	0.0%	No state aid provided		NA
Tennessee	NA	NA	Included in BEP formula		District bond issues not subject to voter approval
Texas	NA	NA	Funded through Tier II of basic support prog.; state guarantees $20.55/WADA for each cent levied above $.86, up to $1.50		Voter approval req. to sell bonds; total principal indebtedness limited to 10% of AV w/ unlimited tax rate, OR ceiling on tax rate of $1/$100 of AV w/ no limit on primcipal amt. of bonds issued; max. term of bond issue is 40 yrs.

(Continued)

NA = Information not available from material received

Table 11. Capital Outlay and Debt Service Programs (Continued)

1 State	2 Total State Funding (In Millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs	6 Limits on Local Funding
Utah	$9.0	<1.0%	Districts qualify for 1 or more of 4 aid progs. by having unmet bldg. needs, being bonded to 95% of capacity & levying required millage		Districts can levy up to 2.4 mills for capital outlay and debt service; unlimited, millage allowed to meet bond payments; Voter approval required to issue bonds & to levy additional 2 mills for capital outlay
Vermont	10.0	4.6%	Approved projects eligible for 15% of total cost before groundbreaking & an additional 15% of total cost upon project completion	Approved projects eligible for debt service aid at same % as through general aid formula; state paid $5.6m	Voter approval necessary to receive state aid for capital projects
Virginia	0.0	0.0%	No state aid available	No state aid available	Voter approval required for counties to issue bonds; cities & towns do not need approval; bonded indebtedness limited to 10% of AV for cities & towns, no limit for counties
Washington	192.4	5.1%	Funding equalized based on prop. wealth, w/ state paying 20%-100% of costs, 50% for the dist. of avg. wealth		Legislature must authorize districts to raise "debt service levies" or "capital projects levies," 2 of 4 special levies available to school districts
West Virginia	35.4	3.2%	Funding provided through school building authority	$38.1 million provided for debt service	
Wisconsin	NA	NA	Funded through the basic support prog		Voter approval req. to borrow >$1 m.; Indebtedness limited to 5% of AV; some districts 10% of AV
Wyoming (1992-93)	NA	NA	No state aid provided	Funds to help low wealth districts repay bonds available by application to SED	Voter approval required to issue bonds; debt limit = 10% of AV; Above mill requirement for capital outlay, dist. may levy 1 BOE approved, & 2 voter approved mills
Total Amt.	>$4,128.5				

NA = Information not available from material received

Table 12. Transportation Programs

1 State	2 Total State Funds (In Millions)	3 Amount as % of State Aid	4 Primary Transportation Program	5 Additional Funds/Notes	6 Non-public Transp. Support
Alabama	$67.3	3.7%	Funded through basic support prog.; allocations based on density of pupils residing 2 or more miles from sch. and on prior yr. daily costs; amt. received by each dist. prorated based on ratio of legislated approp to total allowed cost		N
Alaska	29.5	NA	State provides 100% of transportation funding under a state grant program		N
Arizona	NA	NA	Funded through basic support prog., allocations based on approved daily route miles & eligible pupils transported; wtgs. are used to allocate additional funds for voc. & tech. ed., athletic trips, etc.		N
Arkansas	48.2	4.1%	4-tiered formula; Tier 1 grants vary inversely w/ ratio of avg. students transported to square mileage in district. Tier 2 is an allowance per bus in regular use; Tier 3 is a grant for training bus drivers & mechanics; Tier 4 is an allowance for handicapped and special transportation		N
California	339.3	2.3%	Funding for home to school and special education through "mega-item" funding of 38 categorical programs	$21 million for PVEA bus replacement	N
Colorado (1994-95)	33.8	2.2%	Approved costs funded at $.3787/mile + 33.87% of amt. by which costs exceed mileage reimbursement; state share may not exceed 90% of districts' transp. expenditures		N
Connecticut	36.4	2.3%	Percentage equalizing formula; funding ranges from 0-60%		Y
Delaware	39.9	8.6%	Formula based on 30 mile min. route, bus age, fuel & insurance costs, & an inflation factor; state pays 100% of transp. costs for K-6 pupils living 1 mile from sch. & 7-12 pupils living 2 miles from school	Reimbursement to non-public sch. pupils based on annual approp. & # of eligible pupils	Y
Florida	241.0	4.5%	Formula based on allowable cost/pupil X eligible pupils; factors determining allowable cost incl. actual expenses, bus replacement costs, pupil density & bus route mileage; eligible students incl. those living at least 2 miles from sch., special ed. students, students travelling b/w schools during the day (e.g., voc. programs), & students in pre-K program, or K-6 subjected to hazardous walking conditions, regardless of distance; aid to districts pro-rated based on amt. appropriated	Each yr. 10% of buses in service are scheduled for replacement; funds for bus purchase = number of buses X cost of diesel powered bus for 65 riders; each dist. receives amt. based on district's need in proportion to total need, since calculated cost usually exceeds approp.	N
Georgia	126.8	3.9%	Full state funding for tranport of pupils residing more than 1.5 miles from school. Full state funding for transport of handicapped pupils	State pays 7.2%, 10%, and 12.5% of bus replacement costs depending on bus sized equipment	N
Hawaii	22.4		Dept. of Accounting & General Svcs. funds all transp, 95% of which is provided by private contractors.		N
Idaho	32.3	NA	Districts reimbursed for 85% of allowable previous year costs, including a bus depreciation allowance		N

(Continued)

NA = Information not available from material received

Table 12. Transportation Programs (Continued)

1	2	3	4	5	6
State	Total State Funds (In Millions)	Amount as % of State Aid	Primary Transportation Program	Additional Funds/Notes	Non-public Transp. Support
Illinois	$234.9	6.5	Regular & Vocational Transp: $130.3 Million: Districts receive the greater of $16 /eligible pupil or reimbursement for allowable costs less a qualifying amt; Qual. amt. = .05, .06 or .07% of equalized AV, for elem., HS or unit districts, respectively; eligible pupils reside at least 1.5 miles from sch. or must walk through a safety hazard area; 80% of allowable costs for transporting pupils to voc. ed. progs. during the day are reimbursed by the state	Special ed. transp: $104.6 million//80% of allowable costs	Y
Indiana	39.8	1.5%	Per eligible pupil, state pays $280 minus $20 X (Tot. elig. pupils / tot. round trip mileage) Total dist. amt. = per pupil amt. X tot. elig. pupils minus a local contrib. of $.42 per $100 of AV; eligible pupils reside more than 1 mile from school; dist. allowance may be adjusted based on amt. appropriated by legislature; in 1991, districts rec. 97% of their entitlements, but state funds covered only 18% of regular transp. costs	State reimburses 80% of eligible costs of transp. to special ed. and vocational ed. progs.	N
Iowa	NA	NA	Funded through basic support program	$6.3 million to reimburse districts for transportation or paying to transport non-public pupils	Y
Kansas	NA	NA	Included in basic support as wighted factor	See Section III for description of factor weighting procedure	Y
Kentucky	125.6	5.7%	State pays approved cost of transporting students who live at least 1 mile from school	Additional $2.1 million to reimburse districts for transporting students from sch. to vocational progs.	N
Louisiana	191	1.0%	Included in basic support funding		Y
Maine	98	15.8%	State pays a share of base yr. costs + bus purchase costs		N
Maryland	87.8	4.2%	Dist. receives amt. rec. in 1981-82 increased by the lesser of 8% or change in CPI for private transp. in Baltimore area for 2nd preceding yr. Beginning 1989-90, dist. grananteed amount received proviosly increased between 3%-8%	Included in total is $2.5 m. for transporting handicapped pupils at $500 per pupil needing special transp. in excess of # transported in 1980-81	N
Massachusetts	NA	NA	Regional school districts reimbursed for 100% of transportation costs for pupils living at least 1.5 miles from school; All other districts reimbursed $5 per public & private student	100% reimbursement for pupils transported to alleviate racial isolation, partial reimbursement for pupils using public transp., bilingual & special needs pupils & transp. to vocational progs. outside district	N
Michigan (1994-95)	27.0	<1.0%	Assumed in district foundation allowance	Reimbursement for expense of training bus drivers; non-publics reimbursed for transp. expenses assoc. w/ obtaining certain special ed. services from public schools.	Y
Minnesota	128.5	5.1%	Formula based on 2nd prior year costs, predicted cost (derived using regression analysis) & 2.35% increase for inflation. Elem. students must live at least 1 mile from school, sec. students must live at least 2 miles from sch. to be eligible for transportation; local share based on specified % levies for different categories of transp. aid.	1. Separate allocation for students who don't meet distance requirements, but live where hazardous walking conditions exist. 2. Separate allocation (100% of current yr. costs) for other categories, incl. desegregation & handicapped	Y
Mississippi	46.1	4.4%	Funded through basic support prog.; allocations based on ADA transported per sqare mile & a State BOE rate table		N

(Continued)

NA = Information not available from material received

Table 12. Transportation Programs (Continued)

1 State	2 Total State Funds (In Millions)	3 Amount as % of State Aid	4 Primary Transportation Program	5 Additional Funds/Notes	6 Non-public Transp. Support
Missouri	$112.0	6.6%	State funds up to 75% of cost predicted for each dist.; predicted cost based on density, mileage & cost for similar districts; efficiency incentive: districts that do not exceed 105% of predicted cost receive 80% of approved cost; districts exceeding 105% may receive as low as 56%; elig. pupils live 1 mile or more from sch.	Funding has been capped at $112 m. for four past years. State can't reimburse at 75% rate.	N
Montana	10.1	2.2%	Reimbursements determined by statutory schedule per bus mile, minimum of $.85/mile	Additional funding for buses with rated capacity in excess of 45 students	N
Nebraska	10.3	1.9%	Funded through basic support prog.	Reimburse 90% of allowable cost of transporting children w/ disabilities; $22,000 to reimburse parents whose children have opted to attend a public school district other than the district of residence	N
Nevada	56.0	7.2%	Funded through basic support prog.; 85% of allowable expenditures/pupil are incl. in basic support guarantee; allowable exp. = 2 yr. avg. of equip. costs & 1 yr. of operations cost plus an inflation amt. in both yrs. of the biennium		N
New Hampshire	2.6	2.9%	State aid only for transporting students to vocational education centers		N
New Jersey	263.8	5.4%	Aid based on # of eligible students & avg. # of miles travelled; eligible students = K-8 living more than 2 miles from sch., 9-12 living more than 2.5 miles from sch. & special ed. students; cost differentials in different areas in the state are also factored in	Funding for 1993-94 equal to 101.535% time 1992-93 funding	Y
New Mexico	71.2	6.2%	Formula based on cost of 15 factors, including depreciation, bus replacement, M & O*, fuel, drivers' salaries, etc	1. Separate allocation for transporting students b/w schools and vocational centers 2. Reimbursement of transp. costs to low income parents for attendance outside attendance zone.	N
New York	649.4	6.9%	Equalized aid for approved contract, public service, and dist. operated transportation expenses. Approval based on cpacity, routes, mileage, and pupil minimum - distance eligibility		Y
North Carolina	157.8	4.4%	Aid provided for bus purchase, M&O, and personnel. State uses budget rating formula to calculate local dist. efficiency of transportation systems	Separate alloc. for special ed. and summer sch. transp.	N
North Dakota	17.4	7.1%	$0.25 /mile for 9 or less capacity vehicles, $0.65 for 10 or more capacity vehicles plus $0.28/day/pupil for those residing outside city limits & $0.175 /ride for those who reside w/in city limits; eligible pupils must meet distance requirements	State reimburses districts for supporting transp. to sch. by rural families; special ed. and voc. ed. transp. supported at reg. rates w/ no distinction b/w residence w/in or outside city limits	N
Ohio	139.9	3.7%	Funded through categorical portion of basic support prog.; allocations based on State BOE formulas using # of pupils & total annual miles; state pays about 30% of transp. costs	$22 m. set aside for trans. of handicapped pupils	NA
Oklahoma	21.5	1.4%	Formula based on Avg. daily haul, a per capita amt. determined by pupil density, and a factor computed by the legislature		NA

(Continued)

NA = Information not available from material received

Table 12. Transportation Programs (Continued)

1	2	3	4	5	6
State	Total State Funds (In Millions)	Amount as % of State Aid	Primary Transportation Program	Additional Funds/Notes	Non-public Transp. Support
Oregon	$78.4	6.6%	State funds 70% of approved transp. costs, including depreciation of dist.-owned buses, transp. of students who meet distance requirements, handicapped pre-school students, students travelling b/w schools & room & board in lieu of transp.		N
Pennsylvania	322.9	6.8%	The lesser of: a formula based on approved cost or the district's actual transp. cost multiplied by the dist. market value aid ratio	Excess Cost Reimbursement limits dist. contribution to .5 mill on dist. market value; districts received $159 per non-public student transported	Y
Rhode Island	NA	NA	Funded through basic support prog.		Y
South Carolina	56.0	3.9%	SED responsible for overall supervision of the school transportation program		NA
South Dakota	NA	NA	Trans. expenditure included in basic support and special education support formulas		N
Tennessee	NA	NA	Included in BEP as separate component		N
Texas	242.0	3.1%	Linear density formula determines allowance per mile; maximum rate/mile set by appropriation	Transp. for eligible handicapped pupil receives state funds based on prior yr. cost /mile; transp. b/w schools (eg. to voc. programs) reimbursed base on miles traveled X district's extracurricular travel/mile rate as set by local Board of Trustees	N
Utah	33.5	3.5%	Transp. funds allocated based on approved bus route miles, time and allowances for buses and admin. overhead; eligible students must meet distance requirements: 1.5 miles from sch. for K-8, 2 miles for 9-12	A special levy may be enacted for costs of field trips, extracurricular activities and hazard routes	N
Vermont	3.2	1.5%	Funded through basic support formula; by categorical multiplier based on pop. density	Transp. to vocational centers reimbursed at 50% up to capped mileage rate	N
Virginia	NA	NA	Funded through basic support prog.; costs are calculated for reg. transp., special ed.transp. & bus replacement based on prevailing costs in each category; reimbursements based on districts' composite index of local ability to pay		N
Washington	152.6	4.0%	Formula aid based on # of students transported, distance, minimum funding level, handicapped pupil adjustments, small fleets adjustments and special vehicle types	State also supports purchases of new buses and repair of existing buses	N
West Virginia	25.7	2.3%	Included in basic support as separate foundation allowance		N
Wisconsin	17.7	<1.0%	State pays flat amt. per transp. pupil based on distance each pupil is transported; prorated 92% in 1993-94		Y
Wyoming (1992-93)	18.8	5.5%	State pays 75% of actual prior yr.'s transp. expenses		N
Total Amt.	$4338.9				

NA = Information not available from material received

Table 13. Special Education Programs

1 State	2 Total State Funding (In millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs
Alabama	$151.0	8.2%	$113.8 million for 3800 SE tchr. units allocated based on wtd. SE enr; SE tchr. units carry same salary as basic support program tchr. units	$27.1 million for continuation of appropriation to dist. based on ADA; $4.3 million for private SE schools; $5.8 m. for pre-school SE
Alaska	3.1	<1.0%	Funded through basic support prog., additional instructional units awarded for 4 categories of wtd. SE students	Additional $3.1 m for special schools for handicapped students
Arizona	NA	NA	Funded through basic support prog.; SE is funded through add-on weights in foundation prog.	
Arkansas	6.4	<1.0%	Funded through wtgs. in basic support prog.; wtgs. based on services rendered	Additional $3 m. for SED supervisors & regional cooperatives; $3.2 m. for handicapped preschool children
California	1522.8	10.2%	Funding is unit-based, w/ funding determined by type of instructional setting; reimbursement based on current level of services, inflation adj. 1979-80 costs, a local general fund contrib., federal aid and local property taxes	70% reimbursement for excess cost of non-public placements
Colorado (1994-95)	56.4	3.7%	Admin. unit entitled to amt. received in preceeding budget yr. Remainder of total state appropriation destributed based on growth in SE pupils	
Connecticut	237.8	15.2%	Equalized based on town wealth; funding ranges from 2-70% of eligible costs	Includes $6.8 m. for birth to three program
Delaware	NA	NA	Funded through basic support prog.; Additional units awarded by reducing # of pupils per unit for 12 categories of SE students	
Florida	NA	NA	Funded through basic support formula; # of students in any of 16 SE progs. is multiplied by a program wtg. & then by the base student allocation ($2501.05)	
Georgia	278.8	8.5%	Funded through basic support formula based on pupil weightings for 5 categories of special education pupils, including gifted & talented	
Hawaii	48.5	NA	All funds for Exceptional Child Programs appropriated by legislature	
Idaho	36.4	NA	Funded thorugh basic support program; dist. reimbused for 80% of salaries of approved certificated positions & a max. of $7200 for noncertificated positions	

(Continued)

NA = Information not available from material received

Table 13. Special Education Programs (Continued)

1 State	2 Total State Funding (In millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs
Illinois	$338.5	9.4%	Districts & SE cooperatives reimbursed at specified rates for SE personnel; e.g., $8000 per full time professional worker, for noncertified employees the lesser of 1/2 the salary paid or $2800/yr, F-T director of SE, school psych. $8000 per yr.	State reimburses districts for tuition at private & other non-district SE facilities: dist. receives diff. b/w dist. regular tuition per/pupil & $4500; state pays up to $2000/child to districts whose SE costs after other reimbursements exceed reg. tuition/pupil; additional appropriations for SE summer sch. & SE services for pupils from orphanages, children's homes, state housing units or foster homes
Indiana	184.8	6.7%	SE pupils weighted by "area of exceptionality" in basic support program; state pays $1580 X wtd. pupils	
Iowa	235.9	17.8%	Funded through basic support prog.; based on wtgs.; 79% of SE costs funded by the state	Includes $64.4 m. for instructional support services through AEAs
Kansas	149.0	9.2%	State pays, per certified SE teacher, 75% of districts' excess costs in excess of $25,000; SE transp. funded at 80% of costs	
Kentucky	175.2	7.9%	Funded as add-on to basic foundation prog.; add-on amt. based on 3 categories of SE pupils; severe, moderate and least handicapping conditions	
Louisiana	403.0	21.1%	Funded through basic support based on prior year actual expenditures. State funds 67% on average	
Maine	NA	NA	State pays share of approved SE costs	
Maryland	129.1	6.2%	$70 m. to districts fixed at amt. rec'd in 1980-81; $11.2 m. based on wealth per pupil & SE enr.	Additional progs. fund non-public placements (state pays all costs >3 times non-handicapped pupil cost), & assistance to pupils placed out of state and returned to Md.
Massachusetts	NA	NA	Included in foundation enrollment categories	Additional funds for 1) assumed tuitioned-out SE enrollment and 2) assumed in-school SE enrollment
Michigan (1994-95)	274.0	3.3%	$121.4 pays 75% of added costs of SE progs./svcs., 100% of certain residential prog. costs;	$58 m. reimburses intermediate districts (which serve all districts) $30.7m. to equalize intermediate district millages levied for SE purposes
Minnesota	178.1	7.8%	State aid support for 5 separate SE progs.: aid for salaries = 55.2% of exp., not to exceed $15,320 per employee;	Aid for supplies & equip. = 47% of cost, up to an avg. of $47 per SE pupil; aid for contracted svcs. =52% of the diff. b/w the contracted cost & the gen. ed. rev. for the pupil; plus aid for home-based travel, residential facilities, special pupil, SE levy equalization
Mississippi	113.5	10.7%	Funded through basic support prog.; additional teacher unit for each approved SE program	$.6 m. for univ. based progs., $7.6 m. schools for the deaf & blind; $1 m. for eval. & screening svcs.; $1.8 m. for reimbursement to parents, districts for private placements, $.38 for extended yr. progs.

(Continued)

NA = Information not available from material received

Table 13. Special Education Programs (Continued)

1 State	2 Total State Funding (In millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs
Missouri	$176.3	10.5%	Allocation based on teacher units — approx. $15,500/unit	Includes $11 m. for remedial reading programs based on $9,200 per class or teacher approved
Montana	33.8	7.5%	Prorated apppropriation distributed to districts & SE cooperatives for approved SE costs; state funded less than 70% of these costs in 1993-94	
Nebraska	89.4	16.6%	Districts reimbursed for 90% of allowable excess costs for students receiving more than 3 hrs. of SE svcs./wk., 80% for those receiving not more than 3 hrs./wk	
Nevada	40.9	5.3%	SE prog. units assigned monetary value; districts reimbursed on unit basis for # of units operated up to specified limit; 1 unit = $26,208	State funds out-of-district placements; $1 m. for dev. & use of in-state progs. for autistic, emot. dist. & traumatic brain-injured students
New Hampshire	8.0	9.0%	Districts receive 80% of SE costs that exceed 3.5 times state avg. cost/pupil	
New Jersey	582.5	11.9%	Funded through basic support prog.; # of students in each of 26 SE categories is multiplied by the cost factor for each category & the foundation amt. ($7,232)	
New Mexico	214.2	18.7%	Funded through basic support prog. wtgs; $177.5 m. funds 4 groups of SE pupils classified by extent of svcs. req.; $31.4 m. funds other ancillary progs.; $5.3 m. for SE progs. for 3 & 4 yr. olds	
New York	1332.6	14.2%	Public Excess Cost Aid: $1,150.6 m. For programs operated by public schools or BOCES (regional centers); Percentage equalization applied to a variable ceiling and an alternate variable flat grant based on district spending and a minimum aid ratio; State share is 49% for average wealth district; additional funds provided for students in very expensive programs	Separate funding for students in private facilities ($87.9 mill), summer programs ($80.4 m, districts fully reimbursed), or in the care of the state ($34.6 m.)
North Carolina	300.3	8.4%	Basic SE funding = $1956.52 per SE pupil. The # of SE students above 12.5% of ADM funded at $418.76	$22.2 m. for preschool SE progs. $3.8 m. for developmental day care.
North Dakota	23.1	9.4%	Funding based on "approved program" and incorporates 9 weights into funding formula	Separate support available for SE transp.; state pays costs exceeding 2.5 times state avg. cost/pupil for pupils served outside the district or in the home
Ohio	480.4	12.8%	Funded through categorical prog. w/in basic support prog.; flat grants awarded for approved units; units based on teacher salary, retirement, sick leave & classroom & other expenses	Extended service grants for certified employees working an extended yr.
Oklahoma	NA	NA	Funded through basic support prog.; based on wtd. pupil categories	

(Continued)

NA = Information not available from material received

Table 13. Special Education Programs (Continued)

1 State	2 Total State Funding (In millions)	3 Amount as % of State Aid	4 Primary State Program	5 Additional State Programs
Oregon	$29.0	2.4%	State pays 100% of costs above the avg. cost per non-SE student in each county	Includes $6.5 m. for the Oregon schools for the Blind and the Deaf
Pennsylvania	632.0	13.4%	Funding system based on $1,025 X 15% of ADM & $12,000 X 1% of ADM	$11.1 m. set aside in contingency fund to augment formula for extraordinary expenses; funding provided for intermediate units, schools for deaf & blind and other varied SE programs
Rhode Island	33.4	8.8%	Excess cost formula designed to aid 100% of excess costs for SE pupils. In 1994, program was funded at 50% of total cost	
South Carolina	NA	NA	Funded through 8 wtgs. in basic support prog.	
South Dakota	27.5	17.2%	Aid = allowable SE expenditures - .007 X district prop. value	
Tennessee	NA	NA	Funded through BEP prog. formula components	State will pay for SE costs above BEP funding if needed
Texas	1,100.0	15.0%	For each fte in an SE program, basic allotment is multiplied times one of 11 program weightings	Federally required extended yr. progs. receive up to 75% of allotment
Utah	NA	NA	Funded through basic support prog.; additional weighted pupil units (WPUs) for 4 categories of SE svcs	
Vermont	32.9	15.3%	3 main categories of funding: 1) Block grants based on total ADM -tot appropriation based on 60% of avg. SE salaries; 2) state pays 90% of SE costs exceeding 3 times the foundation cost per pupil; 3) wealth equalized reimbursement	Additional funding for wards of the state, early childhood ed., & small programs for visual, hearing impaired & others
Virginia	134.6	6.0%	Assistance for SE salaries based on SE count & class size standards; state share based on locality's "composite index of local ability to pay."	State pays 43% of homebound instruction costs, 100% of Voc. Ed. Inservice; state share of tuition costs is based on the composite index
Washington	421.8	11.2%	Formula based on 3 categories of staff units & on # of pupils in each of 14 categories of handicapping condition; specified amts. per unit are added for insurance benefits, supplies & other non-staff related costs, & substitute tchrs.	
West Virginia	19.9	1.8%	SE funded through basic support in form of adjusted enrollment. SE pupils are given addtional wgt. of 2	Aditional funds ($19.9 m.) provided for 6 separate programs for exceptional children
Wisconsin	261.3	12.0%	State pays fixed % of costs: 63% of salaries, 63% of SE transp., 51% of psychologists & social workers & 100% of board, lodging & transp. for nonresident SE students; amts. prorated based on funds available — 71.4% in 1993-94	
Wyoming (1992-93)	61.8	18.0%	State reimburses districts for 85% of prior yr.'s actual SE expenses, 80% for out-of-state SE placements	
Total Amt	$10,159.3			

NA = Information not available from material received

Table 14. Funding for Selected Categorical Programs

1 State	2 Funding for Compensatory Education	3 Funding for Gifted & Talented	4 Funding for Biligual Education	5 Funding for Early Childhood Education
Alabama	N	Y	N	Y
Alaska	N	Y	Y	N
Arizona	N	Y	Y	Y
Arkansas	Y	Y	N	Y
California	Y	Y	Y	Y
Colorado (1994-95)	N	N	Y	Y
Connecticut	N	N	Y	N
Delaware	Y	Y	Y	Y
Florida	N	Y	Y	Y
Georgia	Y	Y	Y	Y
Hawaii	Y	Y	Y	NA
Idaho	N	Y	Y	Y
Illinois	Y	Y	Y	Y
Indiana	Y	Y	N	Y
Iowa	N	N	Y	Y
Kansas	Y	Y	Y	Y
Kentucky	Y	Y	N	Y
Louisiana	Y	Y	Y	Y
Maine	N	Y	Y	Y
Maryland	Y	Y	Y	Y
Massachusetts	Y	N	Y	Y
Michigan (1994-95)	Y	Y	Y	Y
Minnesota	Y	Y	Y	Y
Mississippi	N	Y	N	N
Missouri	Y	Y	N	Y
Montana	N	Y	N	N
Nebraska	N	N	N	Y

(Continued)

NA = Information not available from material received

Table 14. Funding for Selected Categorical Programs (Continued)

1 State	2 Funding for Compensatory Education	3 Funding for Gifted & Talented	4 Funding for Biligual Education	5 Funding for Early Childhood Education
Nevada	N	Y	N	N
New Hampshire	N	N	N	N
New Jersey	Y	N	Y	NA
New Mexico	Y	Y	Y	N
New York	Y	Y	Y	Y
North Carolina	Y	Y	Y	N
North Dakota	N	N	N	Y
Ohio	Y	Y	N	Y
Oklahoma	Y	Y	Y	Y
Oregon (1992-93)	Y	Y	N	Y
Pennsylvania	N	Y	N	Y
Rhode Island	N	N	Y	Y
South Carolina	Y	Y	N	Y
South Dakota	N	Y	N	NA
Tennessee	N	Y	N	N
Texas	Y	Y	Y	N
Utah	N	Y	N	Y
Vermont	N	N	Y	Y
Virginia	Y	Y	Y	Y
Washington	Y	Y	Y	Y
West Virginia	N	Y	N	Y
Wisconsin	Y	Y	Y	Y
Wyoming (1992-93)	Y	Y	N	N
Total states funding	28	40	30	36

NA = Information not available from material received

Table 15. Teacher Retirement Programs

1 State	2 Amount State Pays* (In Millions)	3 Amount as % of State Aid	4 State Contribution	5 District Contribution	6 Teacher Contribution	7 State Contribution to FICA
Alabama	$161.2	8.8%	Y	N	Y	Y
Alaska	0.0	0.0%	N	Y	NA	N
Arizona	0.0	0.0%	N	Y	Y	N
Arkansas	118.0	10.0%	Y	N	Optional	N
California	600.0	4.0%	Y	Y	Y	N
Colorado (1994-95)	0.0	0.0%	N	Y	Y	N
Connecticut	124.0	7.9%	Y	N	Y	N
Delaware	22.5	4.9%	Y	Y	Y	Y
Florida	621.0	11.5%	Y	Y	N	Y
Georgia	NA	NA	Y	N	Y	N
Hawaii	NA	NA	Y	N	Y, for some	Y
Idaho	96.7	NA	Y	N	NA	Y
Illinois	295.8	8.2%	Y	NA	NA	NA
Indiana	219.8	8.0%	Y	Y, some	Y	Y
Iowa	0.0	0.0%	N	Y	Y	N
Kansas	55.8	3.5%	Y	N	Y	NA
Kentucky	224.9	10.3%	Y	N	Y	N
Louisiana	263.0	13.7%	Y**	Y	Y	N
Maine	100.9	16.2%	Y	N	Y	N
Maryland	358.0	17.2%	Y	Y	Y	N
Massachusetts	NA	NA	Y	N	Y	N
Michigan (1994-95)	NA	NA	Y**	N	Y	Y
Minnesota	0.0	0.0%	N	Y	Y	N
Mississippi	57.5	5.4%	Y	Y	Y	Y
Missouri	0.0	0.0%	N	Y	Y	N

(Continued)

* Amt. state pays does not include FICA
NA = Information not available from material received

** No direct state contribution. Retirement contributions are indirectly provided for through the Basic Support Program

Table 15. Teacher Retirement Programs (Continued)

1 State	2 Amount State Pays* (In Millions)	3 Amount as % of State Aid	4 State Contribution	5 District Contribution	6 Teacher Contribution	7 State Contribution to FICA
Montana	$16.7	3.7%	Y	Y	NA	N
Nebraska	7.7	1.4%	N	Y	Y	N
Nevada	0.0	0.0%	N	Y	N	N
New Hampshire	4.9	5.5%	Y	Y	Y	NA
New Jersey	380.7	7.8%	Y	N	NA	Y
New Mexico	63.5	5.5%	Y	Y	Y	Y
New York	0.0	0.0%	N	Y	Y, for some	N
North Carolina	243.1	6.8%	Y	N	Y	Y
North Dakota	0.0	0.0%	N	Y	Y	N
Ohio	0.0	0.0%	N	Y	Y	N
Oklahoma	151.7	10.1%	Y	Y	Y	NA
Oregon	0.0	0.0%	N	Y	Y	N
Pennsylvania	444.1	9.4%	Y	Y	Y	Y
Rhode Island	30.1	7.9%	Y	Y	Y	N
South Carolina	284.9	19.9%	Y	Y	NA	NA
South Dakota	NA	NA	NA	NA	NA	NA
Tennessee	NA	NA	Y	Y	Y	Y
Texas	943.0	13.0%	Y	Y	Y	N
Utah	NA	NA	Y**	NA	NA	NA
Vermont	21.0	19.8%	Y	N	Y	N
Virginia	72.4	3.0%	Y	Y	Y	Y
Washington	NA	NA	Y	Y	Y	Y
West Virginia	154.9	14.0	Y	Y	Y	Y
Wisconsin	NA	NA	N**	Y	NA	N
Wyoming (1992-93)	0.0	0.0%	N	Y	Y	N
Total Amt.	$6137.8					

* Amt. state pays does not include FICA
NA = Information not available from material received

** No direct state contribution. Retirement contributions are indirectly provided for through the Basic Support Program

OVERVIEW OF SIGNIFICANT CHANGES IN BASIC SUPPORT AID SINCE 1990-91

This section highlights a few of the significant changes that have occurred in basic support programs within the 50 states since the 1990-91 school year. Although most state basic support programs remained virtually unchanged, several states underwent some significant changes in their systems since 1990-91. Here are some examples of changes in state education finance programs since 1990-91 (the reader is referred to the state descriptions for further detail):

- Colorado. The School Finance Act of 1994, which became effective July 1994, established a foundation plan that no longer groups districts into eight separate setting categories. The foundation base of $3,390 per pupil is modified for each district for size, cost of living, and a personnel cost factor.

- Indiana. A new distribution formula became effective during the 1994 calendar year. The previous foundation plan formula was in effect for first half of school year and the new guaranteed tax base formula was in effect for the second half. The new GTB formula is to be phased in over a six year period.

- Iowa. A revision of the previous foundation formula eliminated the enrollment decline cushion and enrollment increase advance adjustments. Future growth in state aid and school district budgets will be determined on an annual basis through the political process as opposed to the previously used formula.

- Kansas. The School District Finance and Quality Performance Act of 1992 (SDFQPA) controls expenditure and tax rate differences. All programs operational during the prior year provides the basis for estimating the next year's allowable budget and dictates the amounts and sources of state and local contributions.

- Louisiana. A new minimum foundation plan, effective for the 1993-94 school year, uses a methodology based on the Representative Tax System (RTS) approach developed by the ACIR to calculate local school district fiscal capacity.

- Massachusetts. The Education Reform Act of 1993 created a foundation program that mandates every district to establish a foundation budget prefaced upon spending of at least $5,500 per student.

- Michigan. In July of 1993, the Michigan legislature eliminated the local property tax as a source of operating revenue for the public schools. Since then, Michigan established a new foundation plan and eliminated the old guaranteed tax base plan creating a substantial shift in funding responsibility from local to state. Although a portion of the property tax was restored a major source of new funding was created with the two cent increase in statewide sales tax.

- Montana. In 1993-94, a major overhaul of the state aid system occurred with the creation of a combined foundation plan and GTB plan. The foundation plan provides each district with direct state aid for 40 percent of its basic and per-pupil entitlement. The GTB plan aids local levies up to an additional 40 percent of its basic and per-pupil entitlement.

- New Jersey. In July 1994, the Quality Education Act (1990) was held unconstitutional. New Jersey is currently in a holding pattern until a new formula is developed. The 1993-94 school aid is based on a percentage of 1992-93 aid received.

- Tennessee. The Education Improvement Act of 1992 created a new finance program — The Basic Education Program (BEP) with a five year transition period from the previous funding formula. BEP is a foundation plan providing funds based on 42 components found by the State Board of Education to be needed by all local systems. Components are classified as classroom and non-classroom components.

- Wisconsin. In 1993, the Legislature imposed a five year limit (1993-94 - 1997-98) on the annual amount of revenue per pupil each school district can raise each year through the combination of state general aid an the property tax. Also, the state's collective bargaining law was modified for four years (1993-94 - 1996-97) to limit annual increases in teacher compensation, including benefits, to 3.8 percent, with similar limits for school administrators.

Below are three tables that examine trends in basic support programs between the 1986-87, 1990-91, and 1993-94 school years. Trends are examined for three aspects of basic support systems — primary type of basic support program used, type of allocation unit, and wealth factors used in determining local fiscal capacity. The reader is advised to interpret these tables with some caution. Some of the changes are definitional in nature; the definitions used to classify basic support programs were not consistent between the 1986-86 and 1990-91 editions, but are consistent between the 1990-91 and 1993-94 editions.

Classification of Basic Support Programs by Type

Type of Program	*1986-87*	*1990-91**	*1993-94*	*Change 86-87 to 93-94*	*Change 90-91 to 93-94*
Flat Grant	5	2	2	- 3	0
Foundation	30	38	40	+ 10	+2
Percentage Equalizing	5	6	4	- 1	-2
GTB/GTY	6	2	2	- 4	0
Full State Funding	4	2	2	- 2	0

* Four states were reclassified based on definitional differences between the 1986-87 and 1990-91 editions.

The above table shows that the major trend over the past seven years has been an increased reliance on foundation plan programs to fund basic support aid. Between 1986-87 and 1993-94, ten states have changed to foundation plans from some other type of program. The major shift to foundation plans occurred between 1986-87 and 1990-91, when eight states changed plans. Between 1990-91 and 1993-94, the only change was a net increase of two in the number of foundation and a net decrease of two in percentage equalizing plans. The was no net change in GTB/GTY plans between 1990-91 and 1993-94 as Michigan changed to a foundation plan but Indiana changed from a foundation plan to a GTB plan.

Classification of Basic Support Allocation Units By Type

Type of Unit	*1986-87*[1]	*1990-91*[2]	*1993-94*[2]	*Change 86-87 to 93-94*	*Change 90-91 to 93-94*
Pupil					
ADA	9[3]	9[3]	7	-2	-2
ADM	24	21[4]	22	-2	+1
ENR	9	11	12	+3	+1
Teacher/Instructional	8	9	7	-1	-2
Total	50	50	48		

[1] Hawaii not included.

[2] Hawaii and South Dakota not included.

[3] Missouri used an average of ADA and ADM and was included in both.

[4] Colorado used a combination of ADM and Instructional Units and was included in both.

The above table shows that pupils continue to be the allocation unit of choice among states with at least 41 states using them over the past seven years. The major trend over this period has been a small shift from use of ADA and Teacher/Instructional units to enrollment based pupil counts. A significant shift occurred between 1990-91 and 1993-94 with two states changing from teacher/instructional allocation units to pupil count allocation units. The change in these two states, Colorado and Louisiana, resulted from the implementation of new foundation plans.

Classification of Local Fiscal Capacity Wealth Measures By Type

Type of Wealth Measure	1986-87[1]	*1990-91*[2]	*1993-94*[2]	*Change 86-87 to 93-94*	*Change 90-91 to 93-94*
Property Valuation (only)	30	24	24	-6	0
Property Valuation plus Other Revenues[3]	6	10	9	+3	-1
Property Valuation & Personal Income[4]	12	13	14	+2	+1
Total	48	47	47		

[1] Hawaii & North Carolina not included.
[2] Hawaii, North Carolina, and Washington not included.
[3] Personal Income is not included.
[4] Includes those states that may include other revenues in addition to personal income.

The major trend has been a movement away from property valuation as the only measure of district wealth toward the incorporation of additional sources of local revenue including personal income. The principal shift occurred between 1986-87 and 1990-91. Since 1990-91, wealth measures have remained fairly stable among the states.

STATE-IMPOSED LIMITATIONS ON SCHOOL TAXES AND SPENDING

Most states limit their local governments' ability to tax or spend. Counties, municipalities and school districts in all parts of the country are subject to such limitations, although they are most commonly imposed in the West and Midwest. This section focuses on the limitations applied to school districts. Unlike most of this introduction, which is based upon information provided by each state separately, this section on school district tax limitations draws upon a comprehensive study of local government limitations conducted by the Center for Urban Policy and the Environment at Indiana University and published by the U.S. Advisory Commission on Intergovernmental Relations.[1] This study reports on limitations in effect in 1993. It does not reflect new measures enacted after that year. The tables in this section provide more consistent and detailed descriptions of limitations than are available in the state summaries.

There are four major types of limits on taxes and expenditures: *tax rate limits, tax revenue limits, expenditure limits* and *assessment increase limits.* A less restrictive limit *is full disclosure,* or "truth in taxation." Table 16 shows which states impose each of these restrictions on their school districts. Rate limits are the most common limitations to be applied to school districts. As of 1993, 31 states imposed them, followed by revenue limits (19 states) and full disclosure laws (18 states). Expenditures are limited in eight states, and assessment increases are limited in seven states.

The restrictiveness of these limitations in practice varies widely. Many are so loose as to be virtually meaningless; others are extremely restrictive; and a third group vary in their impact, restraining some districts while not affecting others at all.

Types of Limitations

Tables 17 and 18 describe *overall* and *specific property tax rate limits* imposed by states. This type of limitation restricts the millage rate or nominal tax rate, that is, the number of dollars of property tax that may be imposed per dollar of assessed valuation. For example, California limits the total property tax to one percent of a property's assessed value, and Georgia limits school district taxes to 20 mills ($20 per $1000 of assessed valuation). These states illustrate two of the variants of tax rate limits. California's (which resulted from Proposition 13) is an *overall* limit that applies to the aggregate of property taxes imposed by all governments. Georgia's is a *specific* limit applying only to school districts.

Thirty-one states impose tax rate limits on school districts: 12 have overall limits, and 25 have specific limits. The specific rate limit is the oldest form of limitation, and most tax rate limits were enacted before 1978. Overall rate limits are most prevalent in the West and South, with none in the Northeast, while specific rate limits are most common in the Midwest and West.

Tables 19 and 20 show those states that impose either *property tax* or *general tax revenue limits.* (These may also be referred to as *levy limits,* but that term is confusing because it is sometimes used as a name for a tax rate limit.) This type of limitation restricts the annual percentage increase of tax revenue from one year to the next. The allowable

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[1] Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments* (Washington, DC: U.S. Advisory Commission on Intergovernmental Relations, 1995).

107.

Table 16
Tax and Expenditure Limitations on School Spending or Revenue

State	*No Limitations*	*Property Tax Rate Limit*		*Revenue Limit*		*General Expenditure Limit*	*Assessement Increase Limit*	*Full Disclosure*
		Overall	*Specific*	*Property Tax*	*General*			
Alabama		1972	1916					
Alaska			*1972*	*1972*				
Arizona		1980				1974	1980	
Arkansas			L	1981				
California		1978				1979	1978	
Colorado			1992	1992	1992	1973		1992
Connecticut	X							
Delaware	X							
Florida			1855				1995	1974
Georgia			1945					1991
Hawaii	X							
Idaho		1978	1963					1991
Illinois			1961	1991*				1981
Indiana				1973				
Iowa			1939			1971	1978	
Kansas						1973		
Kentucky			1946	1979				1979
Louisiana			1974	1978				
Maine	X							
Maryland							*1957*	*1977*
Massachusetts			*1980*	*1980*				
Michigan		1933		1978				1982
Minnesota						1971		1988
Mississippi				1983				
Missouri			1875	1980				
Montana			1971					1974
Nebraska			1921			1991		
Nevada		1936	1956					1985
New Hampshire	X							
New Jersey						1976		
New Mexico		1914	1973	1979			1979	
New York			1894				1981/86**	
North Carolina	X							
North Dakota			1929					
Ohio		1929		1976				
Oklahoma		1933						
Oregon		1991	1991	1916				
Pennsylvania			1959	L				
Rhode Island				*1985*				*1979*
South Carolina								1975
South Dakota			1915					
Tennessee								*1979*
Texas			1983	1982				1982
Utah			1929					1986
Vermont	X							
Virginia								*1976*
Washington		1944		1979				1990
West Virginia		1939	1939	1990				
Wisconsin					1994			
Wyoming			1911					
TOTAL	7	12	25	18	2	8	7	18

* Applies to non home rule taxing units located in counties contiguous to Cook County.

** 1981=Nassau County only; 1986=New York City only.

L=Limited application; not counted in totals.

Italics represent tax limitations on municipalities or counties in states without independent school districts.

Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

Table 17
State-Imposed Overall Property Tax Rate Limits

State	*Effective Year*	*Rate*	*Description*
Alabama	1972 (amended 1978)	1.0% to 2.0%	Initial Constitutional Amendment limited taxes payable to 1.5 percent of fair and reasonable market value. A 1978 Amendment separated limits by class of property: Class I limited to two percent; Class II - 1.5 percent; Class III (includes residential housing) - 1.0 percent; Class IV - 1.25 percent.
Arizona	1980	1.0%	Maximum amount of taxes collected from residential property is limited to one percent of full cash value. Exclusions include: taxes levied to pay debt service, taxes for special purpose districts, and excess taxes levied pursuant to an election.
California	1978 (amended 1986)	1.0%	Maximum rate limited to one percent of property's full cash value, excluding pre-existing debt. The 1986 Amendment provided that bonds issued after July 1, 1978, are excluded from limit if approved by 2/3 vote of electorate.
Idaho	1978	1.0%	Maximum rate limited to one percent of market value for assessment purposes. Exclusions include: debt service and special assessments levied by law.
Michigan	1933	1.5% 1.8% 5.0%	Aggregate limit for operating purposes. The levy within the 1.5 percent limitation is distributed to taxing units through an allocation board. The electorate may vote to increase the limit to 1.8 percent, at which time the tax allocation is fixed. Also, the limit may be increased up to five percent for a period not to exceed 20 years, with a majority vote of the electorate. Debt service is excluded.
Nevada	1936 1979	3.64%	A 1936 Constitutional Amendment provided that the total tax levy, for all public purposes including debt service, is limited to five percent of assessed valuation. A 1979 statute strengthened the limit by reducing the maximum ad valorem levy for all public purposes to 3.64 percent. The State Board of Examiners may adjust the rate, upwards (to the maximum five percent) or downwards, if so directed by law.
New Mexico	1914	2.0%	Maximum rate of two percent applied to real and personal property. Debt service and approved special levies are excluded. Additional levy may be authorized by majority of voters.
Ohio	1929 (amended 1934) 1953	1.0%	A 1934 Amendment reduced the maximum limit from 1.5 percent to the current limit of one percent. The limit is applied to each dollar of tax valuation — approximately 1/3 of market value. Voter authorized debt service is excluded. Charter cities with higher limits are excluded. Additional levy may be authorized by majority of voters. A statutory provision was included in 1953 which limits the rate to "10 mills on each dollar of tax valuation."
Oklahoma	1933	1.5%	Maximum rate limited to 1.5 percent, with minimum of five mills for school districts. Additional levies may be applied without voter approval: a county may levy four mills for schools; school districts may levy 15 mills with Board of Education authorization. Additional levies may be applied with voter approval: emergency five mills for school districts; a ten mill local support levy; and others. Debt service is excluded.
Oregon	1991	varies	Limit was created through a Voter Initiative, Measure 5, and imposes an aggregate rate on taxing districts which is divided into two categories: (1) specifically to fund public schools; and (2) to fund other government operations. In FY 1991-92 the limit was 2.5 percent (1.5 percent for schools); for FY 1992-93 the limit was 2.25 percent (1.25 percent for schools); for FY 1993-94 the limit is two percent (1 percent for schools); for FY 1994-95 the limit is 1.75 percent (0.75 percent for schools); and for FY 1995-96 the limit is 1.5 percent (0.5 percent for schools). Debt service is excluded.
Washington	1994 (amended 1972) 1973	1.0% 1.0%	Original rate limit of four percent was applied to assessed value (50 percent of true and fair value). A 1972 Amendment reduced limit to one percent of true and fair value. Port and public utility districts are excluded. Limit may be exceeded with a 3/5 vote of the electorate; to pay debt service on g.o. bonds which received 3/5 majority vote; and to meet court ordered contractual obligations. An additional statutory limit provides that the aggregate rate may not exceed 0.95 percent as applied to assessed value. The state levies 0.36 percent for school purposes and 0.59 percent is to be apportioned among remaining districts. Excluded from limit: excess levies referred to above, port and public utility districts, conservation futures, emergency medical service levy, and others.
West Virginia	1939	0.5% to 2.0%	Separate limits are provided for each class of property. Class I is limited to 0.5 percent; Class II (includes residential housing) to one percent; Class III to 1.5 percent; Class IV to two percent. Debt service for school districts is excluded. Limits may be increased by 50 percent for up to three years for counties and municipalities, and by 100 percent for up to five years for school districts.

Italics represent tax limitations on municipalities or counties in states without independent school districts.

Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

Table 18
State-Imposed Specific Property Tax Rate Limitations

State	*Effective Year*	*Description/Millage Limit*
Alabama	1916	If approved by voters, may raise a special district tax for school purposes.
Alaska	1972	*Note: Alaska's municipalities are the only type of local government - rate limit may be considered either overall or specific.* *Limited to 30 mills, excluding debt service. A second class city, by referendum, may levy up to 15 mills, excluding debt service. There are no approved increases.*
Arkansas *(no general limit)*		No specific limit currently exists for general purposes - tax rate requires voter approval; effective 1989, was 2-mill limit for capital outlays. (Effective 1977, was 10-mill specific limit for community college districts.)
Colorado	1992	Constitutional Amendment ("TABOR") constrains specific rates: the mill rate of a district may decrease from prior year but may not increase without voter approval. The cap is prior year's rate. Limit is suspended when revenue is less than payments on debt service, judgments and pensions.
Florida	1855 (amended 1922 and 1968) 1973	Originally, district could levy up to three mills with voter approval. In 1922, limit raised to ten mills. 1968 Revision provided ten mill rate, excluding debt, with voter-approved increase up to two years. Effective 1973, a district wishing to receive state funds must levy additional millage, exclusive of above, at a rate necessary to provide "local effort." An additional non-voted levy of 1.6 mills or 25 percent of "local effort," whichever is less; an additional two mills for certain purposes.
Georgia	1945	Limited to 20 mills for "support and maintenance of education," excludes debt service; increase possible with voter approval
Idaho	1963	Limited to 20 mills, excludes debt service; additional specialized-purpose levies exist; voter-approved supplemental levy up to two years.
Illinois	1961	Limit applies to districts with fewer than 500,000 inhabitants and is based upon grade level, excludes debt service and authorized special purpose levies. Limits for "education": 9.2 mills for districts which operate grades one through 8, which may increase to 35 mills by referendum; 9.2 mills for grades 9 through 12, which may increase to 35 mills; 18.4 mills for grades one through 12, which may increase to 40 mills. Limits for operations and maintenance: 2.5 mills for grades one through 8, which may increase to 5.5 mills by referendum; 2.5 mills for grades 9 through 12, which may increase to 5.5 mills; and five mills for grades one through 12, which may increase to 7.5 mills.
Iowa	1989	If a district wishes to participate in the State School Foundation Program, it must levy 5.4 mills for the general fund (4.4 mills for reorganized districts). Note: effective 1977, any political subdivision may appeal to the State Board for suspension if property values decline or there is low growth in the base.
Kentucky	1946	Limited to 15 mills, excluding debt service.
Louisiana	1974	Limited to five mills (13 mills for Orleans school board), excludes debt service. Additional special-purpose levies permitted with majority vote.
Massachusetts	*1980 (amended 1991)*	*Total taxes assessed on real and personal property may not exceed 2.5 percent (25 mills) of full and fair cash value. If total taxes exceed limit, municipality must annually decrease taxes assessed by at least 15 percent until reaches level of 2.5 percent. With a 2/3 vote, the local authority may seek voter approval to assess taxes in excess of amount allowed.*
Missouri	1875	Districts formed of cities and towns are limited to 12.5 mills and all other districts are limited to 6.5 mills, excluding debt service. Limit may be increased with voter approval.
Montana	1971	The State Equilization Program requires each county to levy an annual basic tax of 33 mills to support elementary schools and 22 mills for high schools. A school distrixct may adopt a general fund budget in excess of the foundation program — up to nine additional mills for elementary schools and six mills for high schools.
Nebraska	1921	Limits 1st-class districts to 4.2 mills, excluding debtr service. Voter-approved increase (55 percent) is available. Voters may approve special levy.
Nevada	1956	Mandatory tax levy of 7.5 mills. Additional levies for debt service are authorized.
New Mexico	1973 (amended 1987)	Limited to 0.5 mills, excluding debt service. Additional levies may be authorized by majority vote. (Note: 1987 amendment changed amounts of rates.)

Continued

Table 18 (Continued)
State-Imposed Specific Property Tax Rate Limitations

State	*Effective Year*	*Description/Millage Limit*
New York	1894	Districts of cities with population less than 125,000 are limited to 12.5 mills, which may be increased to 20 mills by majority vote.
North Dakota	1929	Current limit states that the aggregate amount levied shall not exceed the amount in dollars which the school district levied for prior year plus 18 percent, up to a general fund levy of 180 mills, excluding debt service. However, in a district with population of 4,000 or more, any number of mills may be authorized by majority vote, or the limit may be removed.
Oregon	1991	Specific rates are component of the overall rate limit imposed by Measure 5. Maximum rates to be applied to real market value to specifically fund the public school system are: 15 mills for fiscal year 1991-92; 12.5 mills for 1992-93; ten mills for 1993-94; 7.5 mills for 1994-95; and five mills for 1995-96. Excluded debt service.
Pennsylvania	1959	Districts of the 2nd, 3rd and 4th class are limited to 25 mills. Special-purpose levies, such as debt service and payment of salaries, are authorized. (Limits on 1st-class districts no longer exist.)
South Dakota	1915	Limited to 14.4 mills for the general fund on agricultural property. Limited to 24 mills on non-agricultural property. Special levies outside the limit exist for capital outlay, liabilities, pensions and special education. A 3/4 majority vote may increase limits.
Texas	1883	An 1883 Constitutional Amendment provided for the formation of school districts to assess and collect additional taxes when the state fund proved insufficient. Districts were originally limited to two mills and required voter approval for any school tax. The current limit is at 15 mills and is still subject to voter approval.
Utah	1929 (amended 1988)	Originally limited to 12 mills. Effective 1988, is provision that a basic levy rate is set by the legislature, which is adjusted from time to time. Districts may also levy local rates but may not go above specified ceilings for operations and maintenance, capital outlay and debt service. A district may levy additional tax rate that yields ten percent of the total Basic Program dollar amount.
West Virginia	1939	Class I districts are limited to 2.295 mills; Class II to 4.59 mills; Class III and IV to 9.18 mills, for current expenses and special funds, excludes debt service. (Note: Limits may be increased for school districts by 100 percent up to five years.)
Wyoming	1911	Limited to 25 mills, excluding debt service. An additional three mills may be levied with voter approval; and another three mills for capital outlay may be levied with approval of voters and school board.

Italics represent tax limitations on municipalities or counties in states without independent school districts.
Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

amount of growth is generally pegged to a fixed percent maximum rate of change, although some states base their limit on price inflation, the growth of the tax base, or impose a fixed dollar amount.

Nearly all revenue limits are on *property tax* revenue alone, although *general revenue* limits exist as well. Examples of property tax revenue limits are Washington's six percent and Massachusetts' 2.5 percent limits. Colorado's general revenue limitation restricts increases to the inflation rate and population growth; it also requires that any taxing district must have voter approval for any new tax or tax rate increase, and that if revenue sources exceed the district's spending limit for the fiscal year, the excess must be refunded in the following fiscal year. Wisconsin' s limits school revenue from both state aid and local taxes on a per pupil percentage increase basis.

Nineteen states limit tax revenue: 18 limit property tax revenue and two impose a general revenue limit. Revenue limitations are most common in the West and Midwest.

Table 21 shows states that impose an *expenditure limit*, restricting the percentage increase in local spending from one year to the next. This is similar to a limit on revenue increases from more than just the property tax, since the limit usually applies to spending out of certain revenues. For example, the limit may apply to appropriations from tax revenue (as in California's spending limit) or from tax revenue and user charges (as in Arizona). Eight states limit school district expenditures: four of these states are in the Midwest.

Table 19
State-Imposed Limitations on Property Tax Revenue (Levy) Increases

State	*Effective Year*	*Description*
Alaska	*1972*	*May not levy taxes that will result in revenues exceeding $1,500 a year per resident; or no more than 225 percent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality. Limit applies to levy for operating expenses.*
Arkansas	1981	Rollback provision. When a countywide reassessment results in an increase in property value of ten percent or more, rates shall be adjusted so no district receives an amount more than ten percent greater than the previous year's tax revenue.
Colorado	1992	Constitutional Amendment ("TABOR") limits maximum annual percentage increase in property tax revenue. The maximum change equals the "TABOR Index," inflation in prior year (CPI for Boulder/Denver area) plus annual local growth, adjusted for:(1) property tax revenue changes approved by voters after 1992, and (2) certain reductions. The statutory limit is still in effect; whichever is most restrictive takes effect.
Illinois *(Non-home rule taxing districts located entirely in counties contiguous to Cook County or if majority of equalized assessed value is in contiguous counties.)*	1991	Limits the increase in property tax "extensions" to five percent or the percentage increase in the national CPI, whichever is less. (Extension = the amount of the tax bill sent to taxpayers.) Limit amount is based on highest aggregate extension in any of last three years. Any increase above limit must be approved by voter referendum and will be in effect for the one levy year only. Debt service is excluded. New and annexed property is not included in limit.
Indiana	1973 (amended 1977 and 1980)	Originally, school district levies were frozen at the 1973 level. As of the final major revision, which occurred in 1980, school districts' growth is limited to the average increase in assessed value over the previous two years. Certain adjustments are provided. An additional state supplement may be periodically authorized. Debt service and transportation funds are excluded; while, capital project and special education funds are subject to a rate limit. Districts may appeal to the State Board of Tax Commissioners to exceed the limit. School corporations may exceed the limit via voter referendum.
Kentucky	1979	Rollback provision. After annual reassessment, the tax rate must be adjusted to limit the growth in revenue (exclusive of growth from new property) to four percent over that levied in prior year. If revenue increases more than four percent, voters may petition for a referendum to reconsider rate.
Louisiana	1978	Rollback provision. After statewide reassessment, revenues shall not exceed amount collected in prior year. Each district must adjust rates accordingly. Such rates shall remain in effect unless an increase up to prior year's maximum rate is approved by 2/3 of unit's governing body. Debt service is excluded.
Massachusetts	*1980 (amended 1983)*	*Limits annual property tax revenue increases to 2.5 percent over that amount levied in prior year. Growth from annexation, new construction and improvements not included in calculation. A specified increase over the limit may be authorized by 2/3 vote at general election.* *A 1983 amendment provided that voters may exclude existing or new debt service with a majority vote.*
Michigan	1978	Rollback provision. Following reassessment, if tax base increases (excluding growth from new construction and improvements), the maximum authorized tax rate must be lowered to produce revenue equal to that levied in prior year, after accounting for inflation through the CPI. A revenue increase equal to that of the inflation rate is permitted. Revenue may increase above the inflation rate if electors approve an override and restore the maximum authorized rate. Debt service is excluded.
Mississippi	1983 (amended 1990)	School district levy increases prior to June 30, 1994 were limited to five percent above the highest aggregate levy in any one of the previous three fiscal years. Override available through 3/5 majority electoral approval. Exclusions exist for: new construction, additions to tax rolls, G.O. school debt and first year of new state mandated programs. July 1, 1994 through June 30, 1996, limit increases to 6%; after June 30, 1996, limit increases to 7%. (County and municipal levy caps apply for mandatory components of school taxeffort.

Continued

Table 19 (Continued)
State-Imposed Limitations on Property Tax Revenue (Levy) Increases

State	*Effective Year*	*Description*
Missouri	1980	Rollback provision. Following reassessment, if the assessed value, excluding growth from new construction and improvements, increases by a larger proportion than the increase in the general price level from previous year, tax rates must be reduced to produce same revenue as in prior year. The inflationary growth factor cannot exceed the CPI or five percent, whichever is lower. Excludes debt service. Voter referendum may authorize excessive levy.
New Mexico	1979	Tax levies may not increase by more than five percent over that amount levied in prior year, excluding debt service.
Ohio	1976	Subject to the levy limitation are voter approved millage increases above the overall inside millage of ten mills (1 percent). Any voted millage is capped so the revenue produced does not increase above that amount levied in the first year, excluding new growth. This limit may be exceeded by voter referendum, up to a specified period of time.
Oregon	1916 (as amended)	No taxing unit shall raise a greater amount of revenue than its tax base, which is: (1) the amount obtained by adding six percent to the total amount levied in any one of the last three years; or (2) an amount approved as a new tax base by a majority of the legal voters. After voter-approved amount is fully levied, the tax base can grow at six percent a year. Limit excludes debt service. If the tax base is not sufficient, voters may approve additional levy authority outside of the tax base: a one-year special levy provides a tax levy to balance the budget for one fiscal year; a serial levy may be authorized for general or special purposes and is stated either as a total dollar amount to be levied uniformly for a five- or ten-year period, or is stated as a dollar amount per $1,000 a.v. and levied up to three years. School districts may levy a "safety net levy"without voter approval. This amount is outside of its tax base and must equal the amount levied for operating purposes in the prior year.
Pennsylvania (Limited application)	Circa 1940	Rollback provision. Following countywide reassessment or after a county changes its established predetermined ratio, political subdivisions within counties of the 2nd and 3rd class, must reduce their tax rate so that amount levied does not exceed 110 percent of amount levied in prior year, not including growth from new construction and improvements. The same restrictions apply to political subdivisions within counties of the 4th to 8th class, but the percent is not to exceed 105 percent, except for school districts which are limited to ten percent. The limit may be exceeded with court approval.
Rhode Island	*1985*	*A municipality may not levy an amount more than 5.5 percent over the amount levied in prior year. The amount may exceed 5.5 percent if: municipality forecasts a loss in total property tax revenue, an emergency situation and debt service higher than 5.5 percent. Any excess levy requires a majority vote of the electorate.*
Texas	1982	Rollback provision. Following reassessment, a district must calculate a rolled back rate which provides the same amount of revenue spent in prior year for operating and maintenance purposes plus an eight percent "buffer" and sufficient funds to pay current year's debt. If a unit adopts a rate higher than the rollback rate, voters can petition for an election to rollback the size of the tax increase to eight percent. The eight percent levy limit is not automatically forced, but requires voter referendum in opposition. In school districts, the tax limitation applies to the following year's rate. Some school districts are permitted to set rates greater than the rollback rate.
Washington	1979	Originally (1971) limited counties and municipalities to a levy of 106 percent of the amount levied in the highest of the three past years plus an additional amount which considered growth from new construction, improvements, etc. A 1979 Amendment included school districts. An excess levy is authorized by a majority vote of electorate.
West Virginia	1990	After reassessment, tax rates must be reduced to avoid an increase greater than one percent over previous year's levy, excluding growth from new construction, etc. A governing body may increase the rate with full disclosure provisions (no hearing = automatic rollback). However, in no event will the tax rate cause revenue to exceed prior year's revenue by more than ten percent.

Italics represent tax limitations on municipalities or counties in states without independent school districts.

Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments,* (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

Table 20
State-Imposed Limitations on General Revenue Increases

State	*Effective Year*	*Description*
Colorado	1992	Constitutional Amendment requires that any taxing district must have voter approval for any new tax or tax rate increase. If the revenue sources of any taxing district not excluded from fiscal year spending exceed the district's spending limit for that fiscal year, the *excess must be refunded* in the following fiscal year, unless voters approve a revenue change as an offset.
Wisconsin	1993-94	A recently approved revenue limitation limits school revenue on a per pupil basis: the increase in per pupil revenue from FY 92/93 to FY 93/94 cannot exceed the greater of 3.2 percent (which was the rate of inflation) or $190 per pupil. For FY 94/95, the per pupil revenue increase is limited to a 2.3 percent increase or $194 per pupil, whichever is greater. Voter overrides are provided. Revenue is defined as general state aid plus property tax levy.

Italics represent tax limitations on municipalities or counties in states without independent school districts.
Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

Table 21
State-Imposed Limitations on General Expenditure Increases

State	*Effective Year*	*Description*
Arizona	1974 (amended 1981)	A seven percent expenditure limit on general maintenance and operating budget was replaced in 1981. Currently, the Legislature determines the aggregate expenditure limit for each district by adjusting the base limit to reflect changes in student population and the GNP price deflator. Excess expenditures may be approved by majority vote of electors.
California	1979 (amended 1990)	Currently limits annual appropriations to the amount appropriated in prior year adjusted by: (1) the cost of living factor (growth in California per capita personal income), or (2) percent of growth in total assessed value due to non-residential new construction. These adjustments are less restrictive than the original which adjusted by the lesser of: (1) change in California per capita personal income, or (2) change in U.S. CPI and change in population. Limit applies to all tax revenues — sales, income, property and "technically" any fees collected in excess of cost of service. Excludes "emergencies," debt service and mandates. Revenue received in excess of amount appropriated must be refunded within two years. Limit may be exceeded with voter approval up to four years.
Colorado	1973 1992	School Finance Act originally allowed increase of between seven percent and 12 percent and covered revenues from property tax and state equalization. Several changes have occurred over the years. Limit is currently controlled by the 1992 Constitutional Amendment "TABOR:" The maximum annual percentage change in each district's fiscal year spending equals the TABOR index (inflation in prior year plus annual local growth) adjusted for voter approved revenue changes and certain reductions. Fiscal year spending means all district expenditures and reserve increases.
Iowa	1971	Per pupil expenditure control on school district budget (general fund). Provision to determine annual allowable growth includes the state foundation formula (district cost per pupil), miscellaneous component, and unspent balance. An additional support levy may be authorized by the school board for up to five years and by voters for up to ten years. Voter referendum may override entire limit.
Kansas	1973	The limit is applied to the school district's general fund. The limit has experienced many changes regarding allowable percentage of growth of per pupil expenditures. The limit may be overridden by voter referendum or by appeal to the State Board of Tax Appeals.
Minnesota	1971	School district spending (budget) is restricted by a maximum levy rate determined by the state. The rate has been revised many times over the years. The general education tax rate may be exceeded by voter referendum.
Nebraska	1991	School districts are limited to an allowable growth rate for general fund expenditures, except for special education, of four percent. Rates are annually established by the legislature and are based on projections of state revenue, cost of living, and education indices.
New Jersey	1976 (amended 1990)	Original limit allowed spending to increase up to 75 percent of the annual percent change of statewide assessed value for the previous three years. As a result of a new school funding law, the 1976 limit was replaced in 1990 with the "Maximum Permissible Net Budget" limit, which is determined by: PNB = PCI * PR * PBY. (PCI is the average annual percent increase in per capita income. PR is a ratio of district's local levy budget of prebudget year to the maximum foundation budget for the budget year. PBY is the net budget for the prebudget year. This limit is more restrictive than the previous limit.

Italics represent tax limitations on municipalities or counties in states without independent school districts.
Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

Table 22
State-Imposed Limitations on Assessment Increases

State	*Effective Year*	*Description/Rate*
Arizona	1980	Assessment increases are limited to the property value of the prior year plus the greater of: (1) ten percent of such value, or (2) 25 percent of difference between current year full cash value and prior year limited value. Assessment limit is applied on individual parcels. Limit may be exceeded by voter approval. Assessment may increase through improvements or changes in use.
California	1978	After passage of Proposition 13, the assessed value of all property was rolled back to its 1975-76 value - this full cash value base may increase with inflation (as shown in the CPI) up to two percent a year. When property is sold or new construction is completed, assessment increases to market value. Limit imposed individually.
Florida	1995	Limit was result of 1992 Initiative which amended the Constitution. Assessments on homestead property will be limited to the lower of: (1) three percent of prior year's assessment, or (2) the percent increase in the CPI. Following change in ownership, the property will be assessed at "just value." Limit applied individually. Assessments may increase through improvements.
Iowa	1978 (amended 1980)	Originally, statewide assessment increases were limited to six percent, but were reduced to four percent in 1980. Limit is applied separately to various classes of property (residential, agricultural, commercial). Excludes new construction.
Maryland	*1957 (amended 1991)*	*Originally limited total statewide assessment increase to six percent. Effective 1991, the limit on assessable base was removed - all market value assessments are at 40 percent with no general limit. However, the assessed value of individual owner occupied residences are subject to limitations on assessment increases. The state, county, and municipal property tax are subjected to this limit. The state portion is capped at a ten percent increase. Counties and municipalities have the option to set the limit anywhere from zero to ten percent. If they fail to do so, the cap defaults to ten percent.*
New Mexico	1979	Increases are limited to five percent. A "yield control formula" limits the property tax revenue local governments may receive from yearly reappraisals. Taxing units may not impose an assessment that will result in revenue greater than that derived from the formula, typically five percent. New construction and improvements are exempted.
New York	1981 1986	Limit applies only to taxing units within poipulation of one million or more — Nassau County (1981) and New York City (1986). Increases for Class I property, which includes one-, two-, and three-family residencial housing, are limited to six percent in any one year or 20 percent over a five-year period. Increases for Class II property, which includes all other residential property, are limited to eightpercent in any one year or 30 percent over a five-year period. Separate allowable increases also exist for Class III or IV property. The limit is imposed upon individual pieces of property. Improvements are exempt.

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Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

Table 22 shows *assessment increase limits,* among the newest forms of limitation. By themselves, limits on assessment increases (or, what is equivalent, assessment rollbacks) do not limit local government activity. When they are combined with tax rate limits, however, they are similar to limits on tax levies: they restrict the property tax revenue that can be raised. Limits on assessment increases may be for all types of property or just certain classes, such as residential properties. They may also apply to an overall base increase or to increases in the assessment of individual properties. For example, California's Proposition 13 allows assessed value to increase only two percent per year, whereas Florida limits assessment increases on individual parcels to 3% or the CPI inflation rate each year. In both states, the assessed valuation of property is raised to market value when it is sold.

Six states currently limit assessment increases for all school districts: four apply the limit to individual parcels and two apply it to the growth in the aggregate property base.

Table 23 lists states with *a full disclosure or truth-in-taxation* provision, which is much less restrictive than any of the other limitations. Under full disclosure, any overall increase in assessments must be accompanied by either a rollback in tax rates or by a public vote of the local board to increase revenue by keeping the current rates. Special notices of tax increases are presented in the media or mailed to individual property owners. Eighteen states have

Table 23
Full Disclosure/Truth-In-Taxation Provisions

State	*Effective Year*	*Description*
Colorado	1992	Constitutional Amendment ("TABOR") requires that voter approval is necessary in advance for any new tax or increase in existing tax. Districts must mail notice of ballot issue election to all registered voters 15-25 days prior to election.
Florida	1974 (amended 1980)	Full disclosure includes rollback provision. Following reassessment, a rolled back tax rate shall be computed which provides revenue equal to that of prior year, exclusive of new construction, additions, deletions, and annexation. The rolled back rate and proposed millage rate are included in the property tax notice which is both advertised in newspaper, and (effective 1980) mailed to each taxpayer prior to public hearings on tax changes and budgets.
Georgia	1991	Limit provides that no millage rate for a fiscal year may be levied until the governing authority of a district adopts a resolution which specifies the millage rate. Resolution must be adopted at advertised public meeting. When an authority proposes to establish rate in excess of a rollback rate (rate which produces revenue levied in prior year minus value added by revaluation, new construction, etc.), it must advertise intent and announce public hearing on the issue.
Idaho	1991	This provision replaced a levy limit. No taxing authority may request an ad valorem levy which exceeds prior year's levy by more than 105 percent nor cause the tax rate to increase above prior year's rate without first advertising intent and holding a public hearing; after which, a governing body may adopt such a resolution, followed by Tax Commission certification. Does not include debt service, override/supplemental levies, annexations
Illinois	1981	Requires all taxing units (except home rule) that wish to increase property tax revenue in excess of five percent over that amount levied in prior year, to provide notice and public hearing. Debt service is excluded from calculation.
Kentucky	1979	Full disclosure includes rollback provision. After annual reassessment, taxing authorities which propose to levy a tax rate in excess of the "compensating tax rate" must publish notice and hold hearing. That portion of a tax rate which produces revenue from real property, exclusive of revenue from new property, over four percent of prior year's revenue, is subject to a recall vote or reconsideration if voters petition for a referendum. The rollback provision does allow a four percent increase in property tax revenue.
Maryland	*1977*	*A taxing authority may not set a rate that will exceed the constant yield tax rate unless it is advertised in paper with notice of public hearing or an announcement is mailed to each taxpayer. This is not necessary if the rate is being increased due to reduced assessed value.*
Michigan	1982	Requires that all jurisdictions that levied more than one mill in the prior year annually roll back tax rates for operating purposes to offset increase in values of existing property. The legislative body of a jurisdiction may reverse the rollback and increase the levy, provided that the vote is preceded by a public advertisement and hearing.
Minnesota	1988	A notice of proposed property taxes shall be mailed to each taxpayer and advertised in newspaper with notice of public meeting. At the hearing, taxing authorities may amend proposals and adopt final budget and tax levy. The levy, once adopted by the board, may not be increased without voter approval. An authority may appeal to the Commission of Revenue.
Montana	1974	No local authority may budget an increased amount of property tax revenue unless it adopts a resolution; prior to adoption the authority must advertise and hold hearing.
Nevada	1985	Informational news notice and public hearing on proposed tax rates and tentative budgets are required.
Rhode Island	*1979*	*Each municipality provides a public hearing and property tax disclosure proceedings; the proposed and adjusted current property tax rate shall be published in newspaper. No property tax levy in excess of that amount of current fiscal year shall be adopted until public hearing held.*
South Carolina	1975	Following reassessment and equalization, the tax levy may not exceed the amount levied in prior year by more than one percent, excluding new growth. However, the rate may be increased to generate additional revenue in excess of the limit for increased and/or additional services. As of 1988, the Tax Commission is required to review collections from reassessment years to ensure compliance.
Tennessee	*1979*	*A governing board may not approve a tax rate in excess of the certified tax rate until a resolution or ordinance is approved by the board after advertising intent; the board may adopt only after a public hearing is held.*

Continued

Table 23 (Continued)
Full Disclosure/Truth-In-Taxation Provisions

State	*Effective Year*	*Description*
Texas	1982	Revenue rollback is component of full disclosure provisions. Following reappraisal, each taxing unit must publish the effective and rollback tax rates. If unit adopts a rate which produces revenue increase greater than eight percent, voters can petition for an election to rollback the tax increase to eight percent. Also, if unit wants to increase taxes above rollback rate or by more than three percent above effective rate, it must publish notice announcing hearing. Another hearing is provided for adoption of rate. For school districts, the tax limitation applies to the following year's rate.
Utah	1986	A district which proposes rate in excess of "certified tax rate" - that rate which yields same amount of revenue collected in prior year — must advertise and hold hearing prior to levying of such rate. This limit was enacted to replace a repealed levy limit.
Virginia	*1976*	*Revenue rollback is a component of full disclosure provision. Following annual assessment or general reassessment which results in an increase of one percent or more in tax levied (excluding new construction, improvements, special levies), the jurisdiction shall reduce its rate so as not to exceed 101 percent of prior year's levy, unless the following requirement is met: the governing body may, after advertisement and hearing, increase the rate above the reduced rate if the body believes it is necessary.*
West Virginia	1990	Revenue rollback is component of full disclosure provision. Following annual or triennial appraisal/valuation which results in an increase of one percent or more of property tax revenue (excluding new construction, etc.), the rate shall be reduced so as not to exceed 101 percent of previous year's projected property tax revenue. The governing body may increase the rate above the rollback rate if it advertises and holds public hearing.

Italics represent tax limitations on municipalities or counties in states without independent school districts.
Source: Daniel R. Mullins and Kimberley A. Cox, *Tax and Expenditure Limits on Local Governments*, (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations, March 1995).

such limitations for school districts, although it is more common for this type of provision to apply to counties and municipalities.

Restrictiveness of Each Type of Limitation

The restrictiveness of limitations varies widely depending upon the type of limit or combination of limits imposed, the level of growth allowed compared to the growth that would have occurred without the limitation, what is excluded from the limitation, and whether the limitation can be overridden.

Most limitations aside from full disclosure have the capacity to be fairly restrictive. Revenue and expenditure limits can be highly restrictive, while tax rate and assessment limits are most restrictive when used in combination with each other. However, in practice, restrictiveness also varies for each type of limitation. For example, revenue limits which can be among the most restrictive types of limit are often used merely as rollback provisions to prevent revenue windfalls after reassessments. In such cases, revenue limits can closely resemble full disclosure provisions both in structure and restrictiveness.

In addition to the type of limit used, the amount of growth permitted is important. Specifically, limits are restrictive only if the level of growth is less than the amount that would occur if the limitation did not exist. For instance, if a school district's tax rate is 2 mills, a 3 mill tax rate limitation is not going to be very restrictive. Moreover, since school districts differ in rates of growth and in assessed value per pupil, a statewide limitation that is restrictive for one school district may not affect another district at all.

Most types of limitations have also have exclusions that can lessen their restrictiveness. Taxes for certain purposes are often exempted. The most common exemptions include debt service, employee pensions, and tort liability. Thus, even without shuffling revenue among budget categories, taxes will rise more than the nominal ceiling if the uncontrolled items experience above-average growth. In addition, budgeters can often shift certain spending from the controlled to the uncontrolled categories (one result perhaps being an increase in indebtedness). Exclusions to assessment limitations include increases due to improvements and new construction, and full reassessment at the time of sale or change in ownership, as in California and Florida, (which tends to lock in property owners, discouraging them from buying or selling as often as they would otherwise).

Finally, controls can usually be overridden in some manner, by a referendum of local voters, appeal to a state board, or simply holding an extra public hearing on the budget.

Because many limitations are less restrictive in practice than in theory, those who expect controls to hold down the rise in their total payments to local government by the advertised percentage are often disappointed. But this should not be taken to mean that they are always ineffective. On the contrary, because many of the avoidance mechanisms can be used only to a limited extent, controls may reduce school resources. Of course, if services are reduced, citizens sometimes turn to private substitutes.

OVERVIEW OF CANADIAN SCHOOL FINANCE PLANS

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The legal context for funding schools in Canada is in part defined by the *Constitution Act, 1967* (formerly the British North America Act, 1867) and subsequent acts providing provincial status for Manitoba, Saskatchewan, Alberta, and Newfoundland. These acts reserve to the provinces exclusive jurisdiction over education except that the federal government was empowered to protect existing rights of Roman Catholic and Protestant minorities to control their own education. Subsequently, The *Canadian Charter of Rights and Freedoms*, which came into full effect in 1985, provided both French- and English-speaking citizens the right to control their own education in provinces where they are a minority.

These religious and linguistic guarantees have meant that instead of a single public school system, many provinces have two or more overlapping systems. A number of provinces also provide funds to private schools, many of which are of a religious character. Alberta is the first — and to date the only — province to have adopted legislation allowing charter schools. Arrangements to realize Francophone governance of education as laid out in the *Charter of Rights and Freedoms* are still evolving and are the focus of litigation or government task forces at the present time, so the picture is likely to change.

A basic level of coordination of education policy in Canada is carried out by Council of Ministers of Education of Canada (CMEC), which, for example, is currently implementing a national indicators program. Regionally, the Maritime Provinces Education Foundation has been created to provide regional services to New Brunswick, Prince Edward Island, and Nova Scotia, with Newfoundland currently holding observer status. (The four provinces together are referred to as "The Atlantic Provinces"). The MPEF is currently developing a core curriculum in math, language arts, sciences, and second languages, in both French and English, for use in the Maritime provinces; it recently acted as a consortium for standardizing requirement for and the purchase of school buses.

One characteristic of Canadian education is the variation in organization from province to province. This variation also appears in school grant plans, which include foundation plans, guaranteed tax base plans, and full provincial funding. In the summaries that follow, some of the salient characteristics of the various provincial grant plans are described and recent policy debates noted. Following Canadian custom, the province chapters are listed in geographic order, from west to east. Comments on education finance in the Northwest Territories and the Yukon Territory are included, although their funding arrangements are not described in the the formal descriptions of grant plans. The overview concludes with an assessment of current trends in school finance in Canada.

BRITISH COLUMBIA

British Columbia made major revisions in its funding of schools at the start of the last two decades, in 1981-82 and 1990-91. Both changes shifted greater control to the province and reduced local control over educational spending. Both changes were motivated to control school board expenditures by the province. For all practical purposes, the educational system is fully funded by the province, and the property tax for education has become a provincial tax.

The critical innovation in the 1980s was the introduction of a resource cost model, referred to as a "fiscal framework," which is used for allocating funds. The fiscal framework is based on established service levels describing the inputs or resources needed to cover each function and program recognized. It includes approximately 70 formulae, each describing an appropriate educational activity grouped into four functions: Instruction, Administration, Operations and Maintenance, and Transportation and Housing.

The critical reform of 1990-91 was a system of "block funding", in which the government allocated an amount of public funds from the provincial general revenue by taking a provincial average amount per pupil and multiplying it by the number of funded students. Thereafter, the block has been adjusted annually for changes in mandate and economic factors, such as inflation. In 1993-94, there were 554,194 full-time equivalent students in B.C.'s public schools, and the per-pupil block amount was $5,700, generating a total of $3.2 billion.

The fiscal framework, which is used to allocate block funds, uses 1989/90 costs to develop school board allocations; as a result, a "gross-up" factor is needed to bring allocations up the level allowed by the block. Reviews of the system have been undertaken in 1992, 1993, and are currently underway. Previous reviews have recommended reallocations, but critics have effectively delayed any changes.

The restrictions on local access to property taxes to supplement provincial funds that were introduced in 1990-91 are still in place. Any additional levy requires a referendum; if approved, taxes may be levied for that year, and that year alone. This process has effectively stopped the raising of supplemental funds through local taxation.

ALBERTA

Alberta's government has introduced sweeping reforms throughout the public sector to balance the province's budget, which had been the highest per capita in Canada. In education, cutbacks amount to 12% of expenditures. The changes have included the reduction of the number of school boards from 141 to 60 and the provincializing of the property tax. Alberta intends to introduce a funding system based on a weighted-pupil or resource cost model, similar to that in British Columbia, and to require that a certain percentage be spent at the school level.

SASKATCHEWAN

Like Alberta, Saskatchewan's government inherited a large budget deficit which it has managed to eliminate over the past three years. Although it has done so more through the increase in taxes than through the reduction of public services, provincial funding for education was reduced by 2% in each of 1992-93 and 1993-94, and by 4% in 1994-95 (Hajnal, 1995). A provincial report (Langlois & Scharf, 1991) did recommend the merging of school boards, but the unpopularity of this policy led to the promotion of voluntary amalgamations, at least one of which was accomplished with the creation of Scenic Valley S.D. #117 in January 1994 from four small school divisions (Hajnal, 1995).

MANITOBA

Manitoba conducted a major review of school funding in consultation with major participants in the educational community that resulted, in 1992-93, in the introduction of a resource cost model for funding. Referred to as the Schools Finance Program (SFP), the funding system allocates funds in line with specific educational programs and services. The SFP allocates funds after taking into account the funds raised at the local level with a standard mill rate; hence, the level of funding generated by the SFP amounts to a variable foundation level.

There are four major parts to the funding system: Base Funding, Categorical Funding, Supplementary Funding, and Local Support. The Base Funding is calculated on the basis of program characteristics; the Categorical Funding on the basis of particular needs and provincial priorities; the Supplemental Funding is a second level of equalization that reduces inequalities that would result from the use of Local Funding. Finally, Local Funding is a local levy on the equalized assessment; it raises almost 30% of the overall expenditures an is currently limited to a maximum increase of 2% per year.

ONTARIO

The Education Funding Model (EFM) in Ontario is a guaranteed tax base grant plan, since the province guarantees that any two school boards levying the same mill rate on equalized assessment are assured the same total revenue up to a prescribed grant ceiling. This plan is equivalent to a capped percentage equalization grant plan, or mill rate equalization grant plan, but the method of calculating grants is simpler. The Basic Per-Pupil Grant in 1994 was $4,134 for each elementary pupil and $5,066 for each secondary pupil. This amount was increased $100 from the preceding year, even though the province added no new money. The net result was a decrease in the rate of grant for school boards with above average assessments, and an increase in the rate of grant for the less well-off boards.

The province also provides a number of supplementary grants, some of which are fully funded by the province and some of which require a local contribution. The supplementary grants include Board-Specific Grants, Program-Specific Grants, Capital Assistance, and Additional Provincial Support for Education.

To calculate its basic grant, a school board calculates its maximum possible grant, which is equal to the product of the grant ceiling times plus its per pupil Board-Specific Grants time the enrolment. If it is spending at or above this level, it then calculates its required contribution from local property taxes by applying the provincially set mill rate to its equalized assessed value. Its basic grant is the difference between the two figures. Additional expenditures are funded entirely by local levies.

Board-Specific Grants, which replaced previously used weighting factors, are measures that reflect special needs beyond the control of the school board. Grants are allocated for all pupils, but are linked to data reflecting numerous factors, including the need for compensatory education, French-as-a-first-language enrollment, remote location, low population density, small schools, and small school boards. A separate qualifications and experience weighting factor is also calculated to recognized the higher cost of mature staff.

Program-Specific Grants are based on the number of pupils enrolled in specific programs such as French-as-a-second language or the reduction in primary class size. These grants are contingent upon local contributions. Special Education, formerly funded as a separate flat grant, is included within the Basic Per Pupil Grant. All school boards are required by law to offer all pupils in their jurisdiction an "appropriate education".

The phase-in of funding high schools operated by Roman Catholic separate school boards, begun in 1985, is now complete. Commercial and industrial property assessment, formerly taxed almost exclusively by public boards, is now shared between coterminous public and separate boards on the basis of their relative shares of residential property assessment. The government has announced plans for this assessment base to be shared on the basis of enrolment beginning in 1996.

The school finance problem raised by the acquisition of the right of French-speaking Ontarians to their own system continues to perplex. French-language school boards were created in several areas, but an experiment with a mixed public-separate French-language school board in the Ottawa-Carleton (the national capital area) failed after political and economic problems went unsolved. The government has just announced a School Boards Reduction Task Force, one of whose responsibilities will be to recommend creation of a maximum of 15 French-language school boards in the province to replace a total of 77 French-language school sections and boards now in existence.

To control expenditures in the "broader public sector", the Ontario government introduced what it termed a "social contract", which required public sector institutions — including school boards, universities, colleges, health care, and municipal governments — to reduce expenditures by five percent. For elementary and secondary education, this meant a savings of $425 million. Much of this amount was met through reduced contributions by the province to the Teachers' Pension Plan and unpaid days off, referred to locally as "Rae Days," in recognition of Premier Bob Rae. Reflecting on this honour, the Premier stated: "Better a Rae Day, than no pay." Supplementing the savings of the "social contract" are those of the "expenditure control plan," which involved a withdrawal of $50.5 million for 1994. The social contract is scheduled to end on March 31, 1996; the current government has indicated that the five percent cut in expenditures is to be permanent.

QUEBEC

A significant change occurred in the education policy in Quebec during the 1960s, and this had a major impact on school board funding. To promote economic development, Quebec expanded its educational system with a view to establishing a competitive work force. At that time, school boards obtained 70% of their funding from a school tax levied on local property assessment; provincial grants represented the balance. In 1974-75, as a result of further legislative changes, the local contribution to school board funding dropped marginally.

In 1979, the *Act Respecting Municipal Taxation* was adopted. The school boards' power to levy taxes was limited to $0.25 per $100 of assessment or 6% of net expenditures. Under this Act, the tax field of the school boards was reduced and that of the municipalities was increased. With the transfer of almost the entire tax field to the municipalities, the school boards became dependent on the government. The proportion of the budget covered by local funding became minimal. The government covered 95% of the school boards' expenditures.

In 1990/91, the implementation of a new tax system led to a real increase in the school boards' responsibilities by making them fully responsible for the management and funding of school facilities. This change was accompanied by an amendment of the equalization formula to make it fairer. In addition, an injection of funds was provided to make up for the net revenue losses experienced by some school boards.

As a result of these adjustments, a school board cannot levy a tax that brings in revenue exceeding the maximum yield of the tax (established on the basis of a base amount and a weighted amount per student) or at a rate exceeding $0.35 per $100 of assessment. The provincial government's contribution now accounts for 85% of school board spending.

In addition, since 1990-91 school boards have taken advantage of the provisions of the *Education Act* that allows them to charge for certain services. In 1993-94, as a result of this increase in charging fees for services coupled with the higher school tax revenue, the government's contribution to funding amounted to about 83%.

The method of calculating Department of Education grants has also changed over the years. A basic change was introduced in 1986-86 following collaboration with representatives of school bodies to align resource allocation with school boards' education and administrative responsibilities in a manner that would encourage empowerment of school boards, fairness, and transparency.

Quebec's legislation to realign school boards along linguistic lines was upheld by the Supreme Court of Canada in 1993; with a few exceptions, all school boards are now either French or English.

NEW BRUNSWICK

In 1967, New Brunswick's school and municipal governments were reorganized under the Program of Equal Opportunity, a major purpose of which was to ensure the same quality of services to all areas of the province. As part of this reform, the provincial government became responsible for virtually 100% of school board expenditures, assumed responsibility for collective negotiations with teachers, and implemented a provincial property tax collected by the Department of Municipal Affairs and credited to the consolidate revenue of the province.

In 1992, a royal commission on education issued 42 recommendations, one of which was to reduce the number of school boards; subsequently, the province's 42 school boards were reduced to six francophone and twelve anglophone school boards. The Department of Education is also organized with parallel structures for the two linguistic sectors.

Education expenditures for the government fiscal year 1993/94 (preliminary) were $587.0 million, excluding the capital account and loans and advances items. Debt charges do not appear as part of the education budget. Salaries, wages and benefits were 87% of all school board expenditures.

The funding program uses staffing norms for grades 1 to 9, grades 10 to 12, school administration, psychology and psychometry, elementary and secondary guidance, combined classes and libraries. Funding is per class, not per pupil. Some flexibility is allowed in the use of resources. Teachers salaries are determined at the provincial level in bargaining between the New Brunswick Teachers' Federation awn the Provincial Board of Management.

NOVA SCOTIA

The 1981, *Report of the Commission on Public Education Finance* (The Walker Report) signalled major changes in the organization and fiscal structure of education in Nova Scotia that have remained in place to this day. Most of its recommendations were quickly adopted by the government: 85 school boards were consolidated into 21 school boards, with a francophone board recently being added; a mandatory levy for all property assessment was set; a foundation grant plan using weighted pupils as the measure of need was adopted; and the approval of municipalities was required for optional levies above the foundation program minimum. In the wake of a 1994 discussion paper, a 1995 white paper has recommended a further reduction in the number of school boards to six or seven, including one French-language board. The government acted upon this recommendation on June 9, 1995, and consolidation will occur over the next 12 to 18 months.

In 1993-94, the province established the Education Funding Review Work Group with increased representation from the school board to establish funding principles and review all formulae. For 1993-94 it recommended changes which resulted in the reallocation of existing funds to the boards. This reallocation resulted in the need for transitional funding arrangements which will be phased out in three years.

In 1993-94, the general formula grant was set at $2,551 per weighted pupil; weights are given for pupils at different levels of study (e.g., 1.0 for grade primary to 6 and 1.2 for grades 7 to 12) and for higher cost programs (e.g., 2.5 for vocational students) and by a salary weighting factor to compensate for extra expenses incurred by school boards that have relatively high salary costs due to mature teachers. The provincial fiscal restraint program has meant that the formula allocations are based on a 0% increase over 1992-93. Salaries are negotiated at the provincial level and the pupil/teacher ratio is not negotiated.

Transportation funding is based on two factors. The first is the weighted enrolment count times the school drawing area factor multiplied by $322. The school drawing area factor is the square root of the relative average number of square miles covered by each school campus compared to the provincial average. The second factor is a grant of $4,320 for each approved school bus, which is intended as a capital replacement grant.

In 1993-94, the province contributed a total of $604.7 million or 80% of the total operating and capital revenues. Of this amount, $548.4 or 91% are global funds that may be allocated as school board see fit. Specific purpose grants totally $56.3 million or 9% must be spent on their intended purpose; $20.9 million or about 3% of the total expenditures are optional levies approved by municipal governments. This pattern has been relatively stable since 1990.

PRINCE EDWARD ISLAND

A new *School Act* was approved in 1993 which increased province-wide decision-making with the Ministry of Education and Human Resources and a newly created a provincial Educational Services Commission. The ESC includes the chairs (or their representatives) for the five school boards, the president of the P.E.I. School Trustees Association, and a representative of the provincial Home and School Association. Non-voting members are the Deputy Minister of Education and the Provincial Superintendent. Existing school boards, with a total of 66 trustees, were disbanded, with new ones to be elected, each having at least nine trustees. Funding for elementary and secondary education for this province of 125,000 residents was already fully financed by the provincial government.

NEWFOUNDLAND AND LABRADOR

Four denominational school systems provide education in the province: the Integrated Protestant, the Roman Catholic, the Pentecostal, and the Seventh-day Adventist. Religious rights in education have constitutional protection, although a recent government commission called for a more rational non-denominational system with a school's confessional status determined at the school rather than system level. The commission advocated reducing the number of school board from its current 27 (16 Integrated, 9 Roman Catholic and one each for Pentecost and Seventh-day Adventist). In June 1995, the government announced there would be a referendum in the fall on the question of eliminating the denominational school system.

Major changes were made in the financing of education in 1992-93 when property taxes and poll taxes for education were abolished and the province assumed responsibility for funding 100% of education costs. Under the new funding formula, a Grant Review Committee developed a funding model with seven major components: instruction, school building operations, janitorial maintenance, school secretary, administration, debt service, and repairs and maintenance. Allocation of funds to each component is based on a number of cost factors, including student enrolment, building size, and number of schools.

Funds are allocated using a system of Teacher Salary Units; one teacher is allocated for every 23 pupils, with additional teaching units being allocated for small schools, Native, and francophone students. Actual salaries, including fringe benefits, are paid directly by the provincial treasure, so differences in salaries due to experience and education do not affect a school district's fiscal position.

In 1993-94 the instructional allocation provided a per pupil grant of $75 per pupil plus block funding related to the size of school; e.g., $5,000 for a school with less than 200 students, $7,500 for one with 200 to 400 students, and $10,000 for larger schools. For 1994-95, this allocation was revised to be more continuous, with allocations ranging from$7,000 for a school with fewer than 100 pupils, to $11,000 for those with more than 800. A similar approach is used for other categories.

Collective bargaining is handled provincially in bargaining with the Newfoundland Teachers' Association. The previous agreement restricted the number of teacher layoffs, usually caused by declining enrolments, to 2% a year. In the 1994-95, as a result of a province-wide teachers strike, one of the concessions was that this "2% rule" was abolished.

NORTHWEST TERRITORIES

Although not a province and officially administered by the federal government through the office of the Commissioner, the Northwest Territories is similar to a province with responsible government. The schools operate under The Education Ordinance, 1977, generally referred to as the Education Act, and are directed by the territorial legislature.

Only schools in the territorial capital of Yellowknife are operated by elected public and Roman Catholic separate school boards. Elsewhere, the small populations and vast distances require that schools be operated by the Department of Education of the territorial government. Even in Yellowknife, the Department operates a territorial government high school serving pupils from the local public board and from other parts of the territory. The separate board operates its own high school.

Plans are being developed that will lead to the division of the Northwest Territories into two parts, the eastern section of which would have a predominately Innuit (Eskimo) population.

YUKON TERRITORY

Comparable to the Northwest Territories, the Yukon Territory operates similarly to the provinces as far as education is concerned. Education is fully funded by the territorial government, which levies a uniform tax across the territory. There is no distinction between Catholic and non-Catholic taxpayers, although a contract with the Corporation of the Diocese of Whitehorse reserves certain powers by the bishop in the staffing of schools formerly operated by the Catholic church.

CONCLUSION

A trend is evident across Canada toward greater provincial funding and control of education, with a weakening of control and taxation powers of local school boards. A complementary creation of advisory councils at the school level in most provinces, and a focus on ensuring a high proportion of funds at the school levels, suggests a realignment of the system with a greater focus provincial centres. This trend is still unfolding, and is not so evident as in some overseas jurisdictions, such as New Zealand where school boards were abolished, but it still represents a significant shift in the governance and financing of education. The advisory nature of school councils, however, does not provide a strong balance to provincial powers, suggesting central control and standardization will dominate.

In some ways, provincial systems are becoming more homogeneous—with Ontario moving to eliminate "grade 13"—its sixth year of secondary of education—and Newfoundland perhaps set to remove its multi-denominational system. At the same time, the realignment of school boards along linguistic—French and English—lines in almost all provinces recognizes, after a decade, changes adopted in law with the patriation of the Canadian constitution in the early 1980s.

A major drama is yet to be played out as the federal government implements a reduction in transfer grants to provinces in order to control the federal deficit, hopefully lowering it to 3% of Gross Domestic Product from its current level of almost twice that. (The United States' federal deficit is currently at about 3% of GDP). As these changes occur, further pressures to streamline provincial education systems are inevitable.

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ALABAMA

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I. GENERAL BACKGROUND

State

- State support is provided to local boards via two broad appropriation categories, the Minimum Program Fund (MPF) and the Local Boards Program, formerly the Financial Assistance Program (Act 93-772 of the Alabama Legislature). These are supported by earmarked taxes going directly into the Alabama Special Educational Trust Fund. Within the Minimum Program Fund is a deduction from the Alabama Special Educational Trust Fund liability of $58 million in 1993-94, which is provided by a statewide *ad valorem* tax, referred to as the Public School Fund.

- The single most significant change in the Minimum Program Fund, other than continuing increases in the allocation factor amounts, is the reduction in the average daily attendance divisor, utilized in the allocation of teacher units, from 28, in use since 1939, to a range of 17-26. This change was initiated in FY 1988-89 by Act 87-665 of the Alabama Legislature and will be fully implemented, if funding by the Legislature of state appropriations continues, in FY 1999-2000. The basic Minimum Program Fund formula ("Code of Alabama, 1975," Scn. 16-13-50 through Scn. 16-13-59) has remained virtually unchanged, except in allocation amounts and the ADA divisor, since its inception in the late 1930s. Local revenue is not limited, guaranteed, or power-equalized by any of the modern allocation formulae.

- The Local Boards Program consists of 26 categorical aid items appropriated by the Legislature and distributed to Local Education Authorities (LEAs) by the Alabama State Board of Education, mainly on the basis of average daily attendance. Since 1979, it has grown in the number of line items (programs) and in allocation factor amounts as the Legislature has deemed necessary over the years, first appearing in Act 79-458. These items had traditionally been separate line items of the appropriations acts (Source: Act 79-458 and Act 93-772).

- Alabama has experienced recent litigation on the financial system. Plaintiffs, an association of poor rural school districts, filed suit contending that Alabama's distribution formula does not address local ability to raise taxes and therefore discriminates in its distribution. Several rulings have been made by the court. At the time of this writing, the litigation has paused with an agreement between the plaintiffs and defendants — all state aid for FY 1994-95 is in the form of block grants, thus suspending the Minimum Program Fund and Local Boards program. However, the Legislature must now address the issue and adopt a plan that will eliminate the perceived inequities and inadequacies.

Local

- There are 127 LEAs, referred to as city and county boards of education, that are eligible for participation in the Minimum Program Fund and Local Boards Program. Local boards have no taxing authority and are thus dependent on city, county, and state governing bodies in addition to the electorate for revenue generation. Additionally, the Department of Youth Services (juvenile detention) and the Institute for Deaf & Blind receive state support for K-12 education, both in the above-referenced programs and by specific line item appropriations of the Alabama Special Educational Trust Fund. The Alabama High School of Math and Science and the Alabama High School of Fine Arts receive specific appropriations. These boards are independent in some respects and come under the purview of the state board in others. In theory, the line of operational control is the traditional one of legislature, state board, local board, with the local board addressing such policy provisions that are not already legislated or that have not been resolved at the state level. In practice however, local superintendents exercise much leeway in establishing local operational procedures.

- The 127 regular K-12 LEAs use several revenue sources to support public education. The most common are: *ad valorem* property tax (45 percent), sales (27 percent), city and/or county commission appropriations (6 percent), alcohol tax (in wet counties only — 1 percent), payments on behalf of schools (5 percent), and several other sources (16 percent). The percentages of participation vary from year to year as tax revenues fluctuate. (Source: LEA Financial Status Report, State Department of Education, April 1994).

Funding Summary, 1993-94[1]

Total State School Aid (All Programs)		$1,841 million
Grants in aid	1,543 million	
Teacher retirement contributions[2]	161 million	
FICA	137 million	
Total Local School Revenue (estimated)		$780 million
Property tax revenue	309 million	
Other local source tax revenue	233 million	
Local source non-tax revenue	238 million	
Total Combined State and Local School Revenue		$2,621 million
State-Financed Property Tax Credits Attributable to School Taxes	58 million	

[1] The above financial data were taken from the Alabama Special Educational Trust Fund appropriations (Act 93-772). At the time of this writing, E.O.Y. financial statements were not complete. This LEA tax revenue is reported as appropriated (estimated). The "Code of Alabama, 1975," Scn. 41-4-90, precludes expenditures in excess of state revenue collection in any given fiscal year (10/1 thru 9/30). Thus all state appropriations are occasionally prorated by the ratio of total revenue to total appropriations, after excluding certain minor exemptions. Such was not the case in FY 1993-94; hence, reported appropriations closely approximate actual allocations to LEAs.

[2] The retirement appropriation reported above has been prorated on the ratio of K-12 payroll to total payroll; the health insurance appropriation is reported after an estimated deduction for retiree and postsecondary insurance.

II. THE BASIC SUPPORT PROGRAM

Minimum Program Fund

Funding in 1993-94: $754.9 million (41.0% of total state school aid).

Nature of Program: The Minimum Program Fund is Alabama's basic foundation for the allocation of state-appropriated funds to local boards ("Code of Alabama, 1975," Scn. 16-13-50 to 16-13-59). It is not a fund, per se; rather, it is a formula used to determine allowed costs at each local board. Factor amounts are established and line items are appropriated each year by the Legislature.

Allocation Units: Teacher units. Based on pupil average daily attendance during the first four months of the prior fiscal year.

Local Fiscal Capacity: Average Index of Economic Ability. The average index of economic ability is the average of the assessed valuation index and the economic index of financial ability.

The assessed valuation index is the ratio of a local board's assessed property valuation to the statewide total assessed property valuation. Therefore, it is a board's percentage of the current total assessed property valuation of the state.

The economic index of financial ability is the ratio of a board's weighted revenue valuation to the statewide weighted revenue valuation. It is a board's percentage of the statewide total weighted revenue. The economic index of financial ability is calculated by weighting six separate revenue indices and calculating the weighted average. The indices and associated weights are established as follows:

Revenue Indices	*Weight*
Sales Tax	6.0
Automobile License	5.0
Assessed Valuation (utilities)	3.0
Personal Income Tax	1.0
Manufacturing Value Added	1.0
Farm Income Value	1.0

How Formula Operates: The MPF consists of allocations for teacher salaries and principal supplements, transportation, other current expenses, capital outlay (minimal allocations), and a local effort charge-back that determines local wealth via an average index of economic ability. The costs associated with each of these categories are set out by the Legislature in annual appropriations of the Alabama Special Educational Trust Fund (Act 93-772). The Public School Fund serves to distribute three mills of statewide *ad valorem* revenue receipts on the basis of need (per-student basis) and to reduce the Alabama Special Educational Trust Fund (A.S.E.T.F.) liability for Minimum Program Allocations.

1. *Teacher Salaries.* Teacher salary allocations for five different ranks of certification are set out in the appropriations act. In FY 1993-94, the ranks of certificates, salary allocations (and corresponding degrees) were: AA-$28,207 (MA+30), I-$26,410 (MA), II-$22,994 (BA), III-$19,361 (emergency, no degree), and IV-$16,813 (defense, no degree). (Source: Act 99-772).

   In determining the actual allocations, the average daily attendance of each grade is divided by the appropriate factor to determine the number of teacher units allowed. Then, with the most costly certificates (highest ranks) being funded first at each board, allocations are made until all teacher unit earnings are distributed. The average daily attendance divisor was 28 for all grades from 1939 until a schedule of divisors was legislated by Act 87-665 as follows:

Year	*Grade*	*Divisor*
1988-9	K	7.0
1990-1	1	17.0
1992-3	2	17.0
1994-5	3	17.0
1996-7	4	17.0
1997-8	5-6	24.0
1998-9	7-8	24.0
1999-2000	9-12	26.0

   The above schedule will increase the number of teacher units allocated to local boards through FY 1999-2000. As the divisor for each grade K-4 is reduced, these academic classrooms shall have a maximum class size of 25 pupils. No class size limits exist for grades 5-12.

2. *Principal Supplements.* Allocations for principal supplements are distributed to LEAs at the rate of $100 for each earned teacher unit, and are considered salary allocations. Teacher salary allocations and principal supplements are distributed to LEAs for certificated personnel salaries. These are required to be expended for certificated personnel salaries at the local boards; however, the establishment of salary schedules and actual salaries paid to employees remain the prerogative of the local board.

   There is no statewide minimum salary for teachers. However, in recent years, the Legislature has increased the state allocations for each rank certificate and mandated that equal increases be paid to all teachers employed.

3. *Transportation.* Transportation allocations under the Minimum Program Fund are related to the density of transported students residing two or more miles from school sites and to the actual daily costs incurred in the prior school year. Densities (number of transported students per net square mile of the school district) from each board are plotted along the abscissa of a graph; incurred costs are plotted along the ordinate. A curve of best fit is established for the plotted points. Each board's allocation is then determined by finding its density on the graph and multiplying the cost associated with that density, as determined by the best fitting curve, by the average daily attendance of transported students and by the number of transportation days. State appropriations for transportation are traditionally underfunded; thus, transportation allocations are prorated by the ratio of the legislated appropriation to the total allowed cost. Only $62.3 million was appropriated for the 1993-94 allocation. The total allowable cost under the Minimum Program Fund calculations was $97.4 million. Thus the local boards' average allocation was actually 63.9 percent of the calculated cost in FY 1993-94.

4. *Capital Outlay.* Minimum Program Fund allocations for capital outlay are determined by multiplying the legislated factor, $55.00 (Act 93-772), by the number of earned teacher units at each local board. The total statewide allocation for FY 1993-94 was $1.4 million.

5. *Other Current Expense.* Minimum Program Fund allocations for other current expenses are determined by multiplying the legislated factor, $3,539.55 (Act 93-772), by the number of earned teacher units at each local board. The total statewide allocation for FY 1993-94 was $90.3 million.

State Share: The state share of the MPF is equal to the calculated program costs minus the required local share. Receipts from the Public School Fund are distributed on a per student basis to reduce the Alabama Special Education Trust Fund liability generated by MPF calculations.

Local Share: The Minimum Program Fund requires a statewide total of $4.7 million in local support. The $4.7 million is a fixed amount that is equal to 0.5 percent of the total assessed property valuation of the state in 1938. This chargeback is assessed at local boards via the average index of economic ability. Each county's share of the total local support is calculated by multiplying the county's average index of economic ability times $4.7 million.

City boards within each county also receive state allocations from the Minimum Program Fund. In determining a city's share of the required local effort, current expense ratios are calculated for all boards in each county with city boards. The Minimum Program Fund allocations of salary, transportation, and other current expense are totaled, and the ratio of each board's sum of these factors to the total within that county is applied to that county's chargeback in assessing these boards for required local effort.

The Minimum Program Fund also requires a local board to raise the equivalent of 10 mills of local *ad valorem* revenue. In practice, most local boards' receipts far exceed the required minimum while still being relatively low in their local percentage of total support.

Weighting Procedures: A "weighting" by grade level has been achieved by Act 87-655, which will allocate a greater number of teacher units to elementary grades through FY 1999-2000. Additionally, special education and other line items of the Local Boards are "effectively" weighted, but only because their appropriations are specific and varied.

Adjustments for Special Factors:

Enrollment Growth. Alabama law provides for "current units." These are additional allocations to LEAs as a result of increases in average daily attendance during the current fiscal year.

Enrollment Decrease. There are no save-harmless provisions codified in Alabama law. However, any loss attributable to a reduction of enrollment is protected for one year. Since Minimum Program allocations and many of those of the Local Boards Program are made on the basis of the average daily attendance during the first four months of the prior fiscal year, local boards are thus alerted one year in advance of decreasing aid. Although the terminology "save-harmless" is not included in the law, local boards' losses are delayed by one year while increases are granted currently.

Aid Distribution Schedule: The schedule of payments for state aid disbursements to LEAs is made on a monthly basis. Payments are limited to one-twelfth of the total appropriation and available funds in the Special Education

Trust Fund Revenue Accounts. Payments are made at the beginning of each month by electronic funds transfers to each LEAs bank account.

Districts Off Formula: None.

However, there are several educational institutions that are funded off formula. Some are completely separate while others are "quasi this and quasi that."

The Alabama Institute for the Deaf and Blind receives a specific line item appropriation from the Alabama Special Educational Trust Fund and additionally earns funding under some of the Local Boards Program line items: kindergarten teacher units, support units (at the rate of one for each 15 kindergarten units), sick leave, and personal leave.

The Alabama High School of Fine Arts comes under the purview of an LEA (local board) and is funded accordingly. However, this institution also receives a separate line item apropriation from the A.S.E.T.F., $2.6 million in FY 1993-94.

The Alabama High School of Math and Science receives only a separate line item appropriation of the A.S.E.T.F., $4.3 million in FY 1993-94.

The Alabama Department of Youth Services (DYS) is composed of three juvenile detention facilities. Several years ago, the DYS Board and the State Board of Education came to an agreement to fund the educational functions of DYS under a specific line item appropriation of the A.S.E.T.F. Since that time, DYS, in addition to the separate line item, has received only allocations of the Local Boards Program that were not in existence at the time of the agreement.

Public School Fund

Funding in 1993-94: $58.0 million (3.2% of total state school aid).

Description: The Public School Fund (PSF) is a subset of, and wholly contained within the MPF and represents support to the MPF and a reduction in A.S.E.T.F. liability. For purposes of this document, however, the PSF is discussed separately.

The Public School Fund is a statewide three mill *ad valorem* revenue measure (Constitution of Alabama, 1901, Scn. 260). It is distributed to local boards on the basis of the school census. The total of Alabama's students are divided into the total Public School Fund receipts to determine the allocation per student. That figure is then multiplied by the number of students at each board. The result is each board's reduction in the Alabama Special Educational Trust Fund liability created by allowed costs of the Minimum Program Fund. This amount is distributed to the boards from the Public School Fund receipts. This is a separate fund from the Alabama Special Educational Trust Fund and is not prorated. If appropriations of the Public School Fund exceed revenues, then such shortage shall be made up from the A.S.E.T.F. (ACT 83-9772). Further, homestead exemptions from the Public School Fund tax are made up from proceeds of the A.S.E.T.F.

Extent of Participation: All 127 boards.

Local Boards Program
(formerly the Financial Assistance Program)

Funding in 1993-94: $592.6 million (32.2% of total state school aid).

Description: The Local Boards Program consists of 26 separate line items that are funded by the appropriations act each year and includes FICA. These items with the appropriations are as follows (ACT 93-772):

	Item	*Appropriation ($ millions)*
(1)	Teacher Sick Leave	4.5
(2)	Support Personnel Sick Leave	1.9
(3)	Teacher Personal Leave	1.7
(4)	Support Personnel Personal Leave	0.4
(5)	Instructional Supplies	21.4
(6)	Kindergarten Instructional Supplies	1.0
(7)	Maintenance	7.8
(8)	Special Education (continuation)	27.1
(9)	Special Schools for Special Education	4.3
(10)	Kindergarten Teacher Units	89.0
(11)	Grade 2-6 Teacher Units	11.1
(12)	Support Teacher Units	57.6
(13)	Special Education Teacher Units	113.8
(14)	Vocational Education	86.5
(15)	Teacher Aides	3.9
(16)	Tenured Teacher Salary Increase	101.4
(17)	Support Personnel Salary Increase	34.6
(18)	Library Enhancement	4.9
(19)	Guidance Counselor Teacher Unit	11.1
(20)	Driver Education Teacher Units	8.4
(21)	Social Security	136.8
(22)	Alabama Education Foundation	0.1
(23)	Librarian Teacher Units	3.9
(24)	Preschool Special Education	5.8
(25)	Early Intervention	4.0
(26)	Capital Outlay, Buses	5.0

Extent of Participation: All 127 boards, excepting items (22) and (25), above.

Note: The Local Boards Program is mainly a grouping of line item appropriations for specific categorical aids. However, the appropriations for the Alabama Education Foundation ($0.1 million) and the Early Intervention for Infants and Toddlers Program ($4.0 million) are not distributed to the 127 LEAs.

The Alabama Education Foundation is a limited corporation, charged with the responsibility of promoting academic excellence in Alabama (ACT 92-716).

The appropriation to Early Intervention for Infants and Toddlers Program was to provide funding for matching federal funds under Part H of the Education of the Handicapped Act. These allocations are made to the local committees charged with child find obligations regarding 0 to 2 year old children.

Several of these items are described in Sections III-X.

III. TRANSPORTATION

Funding in 1993-94: $62.3 million MPF (3.4% of total state school aid).
$5.0 million LBP (less than 1.0% of total state school aid).

The transportation allocation to local boards is discussed in Section II, Basic Support Program, as part of Alabama's Minimum Program Fund. An additional Local Boards Program appropriation ($5.0 million, ACT 93-772) was made to supplement the purchase of school buses, to replace those that were built before 1978 and remain in use. Distribution to LEAs was prorated on the basis of requisitions submitted.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Alabama's Minimum Program Fund provides for capital outlay allocations to LEAs; however, this is underfunded for any practical application other than as a supplement to other capital outlay endeavors. (See Section II for clarification of the local board allocations.) With 127 local boards operating in Alabama, the Minimum Program Fund allocations for capital outlay ($1.4 million, $55 per earned teacher unit) are insufficient to provide for plant acquisitions. Thus, capital expenditures are funded by state bond issues that traditionally range from $80 to $300 million. These issues are created from time to time as needs become identified and revenues of the Alabama Special Educational Trust Fund become available. These are appropriated by the Legislature and are generally distributed to elementary, secondary, post-secondary (junior colleges), and universities on such formulae as deemed appropriate.

Local Capital Project Financing

Additionally, local boards, through the legislative process, may obtain construction moneys via local bond issues and warrants that are amortized by receipts of local revenue issues. ("Code of Alabama, 1975," Scn. 16-19-9 through 16-19-8).

V. TEACHER RETIREMENT

Funding in 1993-94: Retirement: $161.2 million (8.8% of total state school aid).

Description: Retirement contributions are provided by employers at the rate of 6.31 percent of salary and by employees at five percent of salary. The employers' contribution is provided by line appropriation of the Legislature at an estimated figure that is annually determined by the actuary. This item is not proratable. Although the retirement system has the ability to receive excess allocations from the Alabama Special Educational Trust Fund in any fiscal year that the appropriation is insufficient to cover the required contribution as determined by the actuary, in practice this is accomplished by increases in the employer contribution factor in the succeeding fiscal year. State allocations for retirement, employer contributions, are paid directly to the retirement system. Local boards provide employee contributions on a monthly basis.

Extent of Participation: All 127 boards.

Social Security

Funding in 1993-94: $136.8 million (7.4% of total state school aid).

Description: The appropriation of $136.8 million is allocated to local boards on the basis of actual Social Security employer matching amounts paid and/or accrued for FY 1993-94. The FICA appropriation is included in the Local Boards Program (ACT 93-772).

Extent of Participation: All 127 boards.

VI. SPECIAL EDUCATION

The state provided five categorical aid appropriations under the Local Boards Program in support of special education (Act 93-772), four of which are allocated to LEAs.

Special Education Teacher Units

Funding in 1993-94: $113.8 million (6.2% of total state school aid).

Description: Alabama allocates 3,800 special education teacher units under this line item. Until recent years past, lesser units (3,200) were allocated on the basis of total enrollment at each local board (S.D.E. Resolutions, Apportionment of Funds, Chapter 290-020-010). After "Child Find," a special education "Census," new units are now allocated on the basis of weighted special education enrollment with prior allocations continuing at prior levels. All special education teacher units carry the same salary, other current expense, and capital outlay allocation factors as those contained in the Minimum Program Fund. Special education transportation at local boards is supplemented with a statewide allocation of $0.7 million.

Extent of Participation: All 127 boards.

Special Education, Continuation of Previously Granted Funds

Funding in 1993-94: $27.1 million (1.5% of total state school aid).

Description: In years past, Alabama initiated special education with an appropriation to local boards on the basis of average daily attendance. Those appropriations continue to be funded.

Extent of Participation: All 127 boards.

Special Schools for Special Education

Funding in 1993-94: $4.3 million (less than 1.0% of total state school aid).

Description: This line item of the Local Boards Program appropriations is distributed to named private and public schools conducting special education.

Extent of Participation: Named public and private schools.

Preschool Special Education

Funding in 1993-94: $5.8 million (less than 1.0% of total state school aid).

Description: This appropriation is distributed to local boards on the basis of child find, weighted special education students.

Extent of Participation: All 127 boards.

VII. COMPENSATORY EDUCATION

Alabama has no compensatory education program funded by state appropriations.

VIII. GIFTED AND TALENTED EDUCATION

Alabama's special education programs include gifted and talented education programs. These are funded within the special education line items of the Local Boards Program discussed in Section VI (Act 79-106 and Act 93-772).

IX. BILINGUAL EDUCATION

Alabama has no bilingual education programs funded by state appropriations.

X. OTHER CATEGORICAL AID

This section describes those remaining categorical aids presented under the Local Boards Program in Section II that were not discussed in Sections III-VI.

Teacher Sick Leave

Funding in 1993-94: $4.5 million (less than 1.0% of total state school aid).

Description: The FY 1993-94 legislated factor of $20.50 per teacher per day for sick leave (allocated as reimbursement for hiring substitute teachers) carried the stipulation that local supplements to salaries of substitute teachers in FY 1992-93 were to remain in place in FY 1993-94 at each local board. (Act 93-772).

Support Personnel Sick Leave

Funding in 1993-94: $1.9 million (less than 1.0% of total state school aid).

Description: State allocations for sick leave for support personnel are handled similarly to reimbursements for hiring substitute teachers. Local boards are eligible for these reimbursements up to but not exceeding actual salaries paid and proportional state allocations. The legislated factor for support personnel sick leave was $17.00 per employee per day. (Act 93-772).

Teacher Personal Leave

Funding in 1993-94: $1.7 million (less than 1.0% of total state school aid).

Description: State law allows up to five days per year per certificated employee for personal leave. Two days are state funded and the remaining three days are optional and established by local board policy. The legislated funding factor is $20.50 per day for the employment of substitute teachers (Act 93-772).

Support Personnel Personal Leave

Funding in 1993-94: $0.4 million (less than 1.0% of total state school aid).

Description: Personal leave for support personnel is similar to that for certificated employees. The factor is $17.00 per day for the employment of substitute support personnel (Act 93-772).

Instructional Supplies

Funding in 1993-94: $21.4 million (1.2% of total state school aid).

Description: Each school site is to receive $480 for each certificated employee at that site. Employees are to establish a budget via secret ballot for the expenditure of these funds provided no employee shall lose personal control of more than one-half of allocations for joint purchases without having signed a waiver releasing greater than one-half. The local board is to administer these expenditures. The appropriation and allocation method is intended to give classroom teachers control of moneys for the purchase of supplies used in their classrooms (ACT 93-772, and "Code of Alabama, 1975," Scn. 16-13-13).

Kindergarten Instructional Supplies

Funding in 1993-94: $1.0 million (less than 1.0% of total state school aid).

Description: Funding for this item represents a double allocation for kindergarten teachers. Alabama textbook law does not provide free textbooks in kindergarten; thus, this additional funding for instructional supplies will provide for this discrepancy (Act 93-772).

Maintenance

Funding in 1993-94: $7.8 million (less than 1.0% of total state school aid).

Description: Distributed to local boards on the basis of teacher unit earnings under the Minimum Program Fund, this item is to provide some state support for maintenance requirements at LEAs (Act 93-772).

Kindergarten Teacher Units

Funding in 1993-94: $89.0 million (4.8% of total state school aid).

Description: A total of 3,105 kindergarten teacher units are provided to local boards on the basis of one teacher unit for each 17 students in average daily attendance during the first four months of the prior scholastic year. Salary, other current expenses, and capital outlay allocations are provided at the same rate as those included in the Minimum Program Fund allocations (Act 93-772).

Grade 3-6 Teacher Units

Funding in 1993-94: $11.1 million (less than 1.0% of total state school aid).

Description: The appropriations act for FY 1993-94 contained $11.1 million for 383 teacher units to reduce the student-teacher ratio in grades 3-6. Salary, other current expense, and capital outlay factors are provided at the same rate as those included in the Minimum Program allocations (Act 93-772).

Support Teacher Units

Funding in 1993-94: $57.6 million (3.1% of total state school aid).

Description: Support teacher units are provided at the rate of one for each 15 teacher units allocated under the Minimum Program Fund, and one for each 15 units allocated in grades K-6. In FY 1993-94, 1,933 units were provided by this line. Salary, other current expenses, and capital outlay factors are provided at the same rate as those included in the Minimum Program Fund allocations (Act 93-773).

Driver Education Teacher Units

Funding in 1993-94: $8.4 million (less than 1.0% of total state school aid).

Description: Salary, other current expenses, and capital outlay allocations are provided at the same rate as included in the Minimum Program Fund to local boards for 290 driver education teacher units (Act 93-772).

Vocational Education

Funding in 1993-94: $86.5 million (4.7% of total state school aid).

Description: The appropriation for vocational education is allocated to local boards of education on a formula established by the State Department of Education, which takes into account experience, requested units, a "set aside" for operations, a "set-aside" for handicapped students, a "set aside" for adult training, a "set aside" for student-apprenticeship linkages, and priority for new area vocational education centers, etc. (Act 93-772).

Teacher Aides

Funding in 1993-94: $3.9 million (less than 1.0% of total state school aid).

Description: Each teacher employed should have a minimum of 30 consecutive minutes of time free from instructional or supervisory responsibility each teaching day. To support this, an appropriation of $3.9 million is provided for the employment of teacher aides. The allocation is based on average daily attendance during the first four scholastic months of the prior scholastic year (Act 93-772).

Tenured Teacher Salary Increase

Funding in 1993-94: $101.4 million (5.5% of total state school aid).

Description: In FY 1985-86, the Legislature appropriated funds and mandated a statewide Career Ladder salary increase of ten percent for all tenured certificated personnel. These increases are also for those certificated personnel who do not hold tenure but do have five years of public school teaching experience, in or out of state. This line item appropriation is made to continue these salary increases mandated by this legislation for all teacher units. The funds are allocated to local boards for 180-day contracts on the basis of the actual teachers employed, their ranks of certificate held, and their tenure or experience status. The ten percent allocations are factored on the salary allocations of the Minimum Program Fund and Local Boards Program and continue to become available to certificated personnel as they gain tenure or the required experience (Act 93-772).

Support Personnel Salary Increase

Funding in 1993-94: $34 million (1.9% of total state aid).

Description: This Local Boards Program appropriation is distributed to LEAs to fund salary increases mandated by legislation for support personnel. It is distributed on the basis of actual numbers of employees paid by state and local funds at the LEAs (ACT 93-772).

Library Enhancement

Funding in 1993-94: $4.9 million (less than 1.0% of total state school aid).

Description: Funds for the purchases of computer software, books, and equipment used in local boards' libraries are appropriated from time to time as needs arise. These funds are allocated on the basis of student enrollment during the prior year's first four scholastic months. (Act 93-772).

Guidance Counselor Teacher Units

Funding in 1993-94: $11.1 million (less than 1.0% of total state school aid).

Description: This line item was initiated in the FY 1990-91 appropriation act. It provided that this appropriation should not be used at local boards to supplant funding for existing counselors employed; but rather, these funds were to be used to hire additional counselors in the elementary schools. A total of 367 units were funded by the $11.1 million appropriation. Salary, other current expenses, and capital outlay allocations are provided at the same level as contained in the Minimum Program Fund. The funds are allocated on the basis of average daily attendance of students in grades 1-6 during the first 4 months of the prior scholastic year (Act 93-772).

Librarian Teacher Units

Funding in 1993-94: $3.9 million (less than 1.0% of total state school aid).

Description: This line item appropriation of the A.S.E.T.F. under the Local Boards Program provides 129 teacher units, one for each LEA, to staff school libraries. The salary, other current expense, and capital outlay allocation factors are at the same rate as those of the Minimum Program Fund (ACT 93-772).

Textbooks

Funding in 1993-94: $17.7 million (1.0% of total state school aid).

Description: Alabama's system of textbook allocation does not involve distribution of moneys to LEAs; rather, a system of credits is used to allow LEAs to requisition books. The allowed credits are determined on the basis of total LEA enrollment. Textbooks are approved by the Alabama State Textbook Committee. Local boards may requisition any number of approved books for any of the grade levels (1-12), until that board's textbook account is depleted. Upon receipt and approval of a requisition, the State Department forwards a purchase order to the vendor for direct shipping to the LEA.

This A.S.E.T.F. appropriation is not under the Local Boards Program since it is not distributed to LEAs, per se; instead, the appropriation is made direct to the Alabama State Department of Education for the joint purchases of textbooks for all LEAs (ACT 93-772).

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Alabama provides no categorical aid for K-12 private schools. However, several private special education facilities are listed and funded by line item appropriation of the Financial Assistance Program; see Section VI — Special Schools for Special Education (Act 91-732).

XII. EARLY CHILDHOOD EDUCATION

See Section VI — Preschool Special Education. This $5.8 million is the only preschool education program funded by statewide appropriation for 1993-94, other than the Early Intervention Program, $4.0 million, which is not intended for distribution to LEAs.

XIII. LOCAL SCHOOL REVENUE

Local revenues consist of several major tax items among a variety of options.

Propery Tax

The most common local revenue source, *ad valorem* property taxes, generated $293 million in FY 1993-94. Alabama's Minimum Program Fund (funding formula) requires that ten mills of *ad valorem* or its equivalent must be raised locally. This requirement is also contained in Alabama's constitution. The penalty for not meeting this minimum revenue generation would be assessed by subtracting the amount of shortfall from the calculated Minimum Program Fund allowed cost. Thus, a penalized board would pay twice for not collecting the equivalent of ten mills of *ad valorem* tax; once for not collecting it, and again by having its state allocations reduced by an equal amount. Actually, all Alabama local boards collect in excess of the equivalent ten mill requirement ("L.E.A. Financial Status Report," by the Alabama State Department of Education, April 20, 1994, and "A Legislator's Guide to Alabama's Taxes," by the Legislative Fiscal Office, January 1991).

Additionally, the Minimum Program Fund includes a chargeback feature as discussed in Section II, Basic Support Program, above. Not a revenue generator, it does require local revenue to fully fund allowed Minimum Program Fund costs.

Statewide *ad valorem* in support of K-12 education consists of the three mill Public School Fund, which is, effectively, a reduction of the Alabama Special Educational Trust Fund liability generated by allowed costs of the Minimum Program Fund.

Alabama underwent a reappraisal and equalization of all taxable property during the 1970s. Current use rather than fair market value is used in establishing tax assessments. Further, constitutional limits (lids) exist for the taxation rates on different classes of property. The reappraisal system is set out by Alabama law, chapter 7 of title 40, Code of Alabama, 1975. Section 40-7-70, *et. seq.* directs the establishment of a $2.5 million fund in the State Revenue Department to continue the reappraisal on a continuing basis; and an additional fund of $3.0 million is established to maintain equalization of these appraisals. Reappraisal occurs on all property every two years, depending on the property's classification and use. This is done on a continuing basis. Property is classified into four categories: utility assessed at 30 percent of value, farm and home assessed at ten percent, automobiles at 15 percent, and all other property is assessed at two percent.

Income Tax

Not allowed at the local level.

Other Sources of Local Tax Revenue

The 127 regular K-12 LEAs use several other revenue sources to support public education. This additional local support includes: sales tax — $181 million; city county and county commission appropriations — $39 million; alcohol and tobacco — $14 million; and payments on behalf of the local schools — $35 million. Amusement, gasoline, mineral lease documentary taxes, and many other revenue sources and income receipts comprise the remaining $99 million.

Tax Exemptions and Credits

A provision in the state income tax, earmarked for education, allows for homestead exemptions ($4,000) from statewide *ad valorem* (6.5 mills total) to be replaced by transfers from the income tax. Thus, this portion (three mills of 6.5 mills) of homestead exemptions finds its way back to K-12 education funding under the Minimum Program (see "A Legislator's Guide to Alabama's Taxes," by the Legislative Fiscal Office, January 1991).

XIV. TAX AND SPENDING LIMITS

Tax Limits

Alabama's constitution provides a 15 mill limit on local *ad valorem* authorized for education (Constitution of Alabama, 1901, Amendment 373 and Act 78-6). All authorized *ad valorem* rates are not in place in some localities and are exceeded in others by special constitutional amendments. These limits may be exceeded if a) proposed by the local governing body after a public hearing, b) approved by the Legislature, and c) approved by the electorate. In addition to this prescription for exceeding 15 mills, property assessment classifications are employed that further limit the local collections of property taxes. The 15 mills allowed are as follows:

Amendment 3	3 mills county
Amendment 3	3 mills district
Scn. 269, Art XIV	1 mill county
Amendment 202	5 mills county
Amendment 382	3 mills district
Total	15 mills

Many local boards' *ad valorem* rates do not conform to any combination of those that are constitutionally authorized statewide. This is caused by the more than 50 amendments providing for local property taxes (local amendments, approved by statewide electorate). Amendment 382 requires ten mills or its equivalent for participation in the

Minimum Program Fund mentioned above. The lid law allows for the following classifications and assessment ratios, lids, and total millage as follows:

Classification & Assessment Ratio	*Lid*	*Total Millage*
Utility, 30%	2.0%	66.7
Other, 2%	1.5%	75.0
Farm & Home, 10%	1.0%	100.0
Automobiles, 15%	1.25%	83.3

Alabama's constitution is a complex document that has been amended 554 times since its adoption in 1901. Some amendments seem to contradict others relative to local taxation without specifically amending that section which is contradicted. Since each section has equal legal weight, bond attorneys consider that each amendment and section stands alone and is supplementary to others ("Local *ad valorem* Taxation," by Dr. Richard L. McBride, Alabama State Department of Education, no date [approximately January, 1987]).

Spending Limits

There are no state imposed limits on local boards of education in Alabama. However, deficit funding in any year is prohibited; thus, local boards are limited in spending to the extent of total revenue and income receipts. Proposals are introduced in the legislature each year that would limit total state expenditures for education by the total revenue received in the prior year; however, these bills remain unsuccessful.

Voter Approval of Budgets and Bond Issues

The only requirement for public "input" to the local budgeting process in Alabama relates to publication of the financial receipts and disbursements. Local boards are required to publish the annual financial statement (Scn. 16-8-31, "Code of Alabama, 1975").

Warrants, similar to bonds, are issued by local boards in anticipation of tax revenues (Scn. 16-13-70 through 16-13-122, "Code of Alabama, 1975"). No vote of the public is required for local boards to issue warrants; however, approval of the State Superintendent is required. Bond issues are usually statewide issues established by the legislature and approved by a vote of the electorate.

XV. EARMARKED STATE REVENUE

Alabama earmarks most of the revenue receipts in one way or another. The education funds are earmarked under the Alabama Special Educational Trust Fund. This fund consists of taxes, receipts and percentages of the total as follows:

Tax Source	*FY 1993-94 Amount ($ million)*	*Percent of Total*
Beer	19.0	0.6%
Hydroelectric	0.5	<0.1%
Income	1,512.7	50.4%
Insurance Premiums	33.4	1.1%
Leasings	16.7	0.6%
Sales	1,056.6	35.2%
Store License	0.4%	<0.1%
Tobacco	21.2	0.7%
Use	126.2	4.2%
Utility	216.0	7.2%
Other	2.0	0.1%

The above amounts are net receipts, available for appropriation by the Alabama Legislature and allocation by the Alabama State Department of Education, after deductions for bond amortization, cost of collections, and authorized transfers (A.S.E.T.F. "Comparison of Net Receipts, "Education Budget Office, Sept. 30, 1994 (ID:FMSGREV2)).

XVI. SPECIAL TOPICS

None.

ALASKA[1]

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I. GENERAL BACKGROUND

State

- *Total Cost of Elementary and Secondary Schools.* Alaska public elementary and secondary schools spent $1.195 billion during the 1992-93 school year (FY 1993), including all operating and capital expenditures, and debt service. This is the latest year for which complete financial statistics are available. With an average daily membership (ADM) in all public schools of 119,000 students, this computes to about $10,000 per student. Operating expenditures of Alaska's 54 local school districts totaled $981.6 million to educate 116,653 students in FY 1993, or $8,415 per ADM. In addition, the state of Alaska operates a boarding school — the Mount Edgecumbe high school — and a centralized state correspondence program for rural students, which cost an additional $7.8 million.

- Alaska's Public School Foundation program — the basic education support program — distributes about one-half of all funds for public elementary and secondary education in the state. The legislature has made numerous revisions to the program since its creation in 1970. Many of the amendments have had significant effects on the relative amount of funds received by particular districts. The latest significant revision to the formula took effect in the 1987-88 school year (FY 1988), although bills to amend the program have been debated in nearly every legislative session since.

- During the past three years, the Alaska student population has grown rapidly — at an annual rate of around four percent. Without taking inflation into account, education costs per student have slightly increased. After adjusting for inflation (using the Anchorage Consumer Price Index), however, per-pupil education expenditures have been falling since 1990 at an annual rate of about 2.5 percent.

- In FY 1993, the state of Alaska contributed $775.4 million for public elementary and secondary schools in the state, including $768.3 million to school districts, and an additional $7.1 million for the state-operated schools. The largest single source of funds for Alaska school districts is the state Public School Foundation Program. In FY 1993, the foundation program distributed $571.5 million — nearly three-fourths of the total state contribution to school districts.

- The state also reimbursed local governments for $127.6 million in debt service and cash payments for school construction. Other major state funding programs include grants for pupil transportation ($28.8 million), and capital funds for school construction. School districts reported receiving $22.2 million in FY 1993 from state capital appropriations, while the legislature appropriated $41.8 million that year.[2] Several years may elapse before funds from state capital appropriations are actually disbursed to school districts. State direct capital spending for schools, including grants to local governments for school construction, has fluctuated considerably over the past twenty years, but has been very modest recently, when compared to the levels prevailing in the first half of the 1980s.

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[1] The author would especially like to thank Eddy Jeans and Chalotte Doogan of the Alaska Department of Education for their assistance. Errors and omissions remain the responsibility of the authors.

- In addition to state-funded programs, school districts receive grants from the state that are funded by the federal government. A change in accounting for one of these programs had a significant temporary effect on state funding for the foundation program in FY 1993. In addition to the $61.8 million the federal PL 81-874 program disbursed to Alaska school districts directly, the federal government also granted the state $42.2 million in PL 81-874 funds for schools on military installations. The state adds these federal revenues to the foundation program fund and distributes them to the Anchorage, Fairbanks, and Kodiak Island school districts that operate these schools. The state received two years of funding for this pass-through program within FY 1993. As a consequence, the legislature reduced the state appropriation for the foundation program by about $21 million.
- In the 1992-93 school year, state support amounted to 63.6 percent of total education revenues of $1.219 billion in FY 1993. The federal government contributed $173.3 million, or 14.2 percent. The remaining 22.2 percent, or $270.7 million, came from local sources. If one takes into account the temporary reduction in the ratio of state to federal funds due to the receipt of PL 874 funds discussed above, the state share is now around 65 percent of total school district revenues, a small increase over the levels prevailing three to five years ago.

Local

- Although the state government provides the majority of funds to nearly all school districts in Alaska, schools in the state's 20 Regional Education Attendance Areas (REAAs) serve 12,600 students where no local governments are organized to collect property taxes. These districts depend financially on state and federal support. The number of REAAs declined by one when the Railbelt School District was incorporated into the new Denali Borough beginning with the 1992-93 school year.
- Alaska's 34 city and borough school districts all receive some type of local tax appropriations collected by their municipal or borough governments. In FY 1993, Alaska cities and boroughs raised $217 million in local taxes — about 80 percent of the total local school district revenues of $270.7 million. Local taxes covered $22 million in local debt service payments not reimbursed by the state, as well as $195 million in operating revenues. School districts raised the remaining $53.7 million of local revenues from non-tax sources. About $9 million of these other revenues consisted of in-kind services provided to the district. Since a substantial portion of these services may have been supported by local tax revenues, the tax contribution to local school finance is probably an underestimate.
- City and borough school districts in Alaska have independent authority over expenditures, but depend on the general municipal entity for access to local tax revenue. Local governments use sales and excise taxes as well as property taxes to finance education and other local services, and it is not possible to distinguish school taxes from general local taxes. In 1993, Alaska local governments as a whole collected 85 percent of local tax revenues with real and personal property taxes. This share, however, varies greatly among municipalities. The state maintains several revenue-sharing programs with local governments that provide tax relief for local taxpayers. Again, it is not possible to distinguish the portion of this tax relief that applies directly to education.

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[2] Figures on capital spending on school and other projects are derived from the Alaska Legislative Finance Division, *Election District Report*, Fiscal Year 1993.

Funding Summary, 1992-93

Total State School Aid (All Programs)		$775 million
Grants in aid	775 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Revenue		$271 million
Property tax revenue	217 million*	
Other local source tax revenue		
Local source non-tax revenue	54 million	
Total Combined State and Local School Revenue		$1,046 million
State-Financed Property Tax Credits Attributable to School Taxes	NA	

* Includes both property tax revenue and other local source tax revenue. See Section XIII for description of local revenue sources.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $595 million (estimated).

This amount includes instructional costs for state schools, as well as funding for Alaska's 54 school districts. An additional $22 million consisted of a portion of federal PL 81-874 funds that are added to the foundation total and distributed to school districts, as mentioned above. For the 1992-93 school year, actual distributions to school districts from the foundation amounted to $571.5 million in state funds and 42.2 million in federal funds.

Nature of Program: Foundation. Alaska's basic support program is a foundation program that attempts to provide each school district with enough funds to meet a definition of "basic educational need," if other sources of funding are not sufficient. In addition to providing at least some assistance to each district, the state is the education financier of last resort.

Allocation Units: Instructional Units. The foundation program distributes aid based on a set of instructional units, defined in relation to average daily membership (ADM) in specified school programs during fall or spring count periods. Instructional unit calculations for the prior school year determine disbursements for the first nine months of the current school year. The last three monthly payments are adjusted using current year instructional unit counts.

Local Fiscal Capacity: Assessed property valuation and PL 81-874 grant. The foundation program takes into consideration two measures of local wealth. The first is based on an equalized assessed real and personal property valuation. The second is the district's PL 81-874 grant. The second measure appropriately addresses local fiscal capacity in a state in which a majority of the land is federally owned.

How Formula Operates: Foundation funding is based on a definition of basic educational need. Basic need depends on three factors:

1. Base instructional unit value
2. Number of instructional units
3. Area cost differential

Basic need is essentially the dollar amount that the state determines is sufficient to provide the Alaska schoolchild with acceptable educational services wherever he or she lives. The idea of need goes far beyond simply a level of state aid appropriated to all districts. Education equity based on need means that each district receives enough units per pupil, given the size of its schools and its program mix, and that its level of funding is adjusted adequately to reflect a geographic cost differential relative to Anchorage for paying salaries and non-personnel costs.

Alaska law defines basic educational need for a given school district as the product of the base instructional unit value, the number of units, and the area cost differential:

Basic Need = (Unit Value) x (Number of Units) x (Area Cost Differential)

The first factor, the base instructional unit value, determines the overall level of state support. The remaining two factors each address perceived problems of equal education opportunity in allocation of funds across districts. Section 14.17 of the Alaska Statutes contains the exact legal definitions and describes the computational details.

The base instructional unit value is defined as the dollar amount that the state determines is sufficient to meet the basic educational need for one instructional unit. An instructional unit theoretically represents a classroom of students; the number of pupils constituting an instructional unit varies according to the educational program and type of school district. The base value used for Fiscal Years 1992-1995 is $61,000 per instructional unit. This implies that the state considers the cost of running a regular school classroom to be about $61,000 for a school year, including the teacher's salary and benefits, materials, administration, and building operations and maintenance. Pupil transportation, school lunches, and some student activities costs are not included, however.

State Share: The foundation provides whatever portion of Basic Need that the law determines cannot be provided from local or federal sources. Specifically,

State Foundation Aid = (Basic Need) - (Local Effort) - (90% Eligible PL 81-874 Funds)

Local Share: Under current Alaska law, the state makes two deductions from calculated basic need in order to "equalize" state support provided to various districts. First, the state deducts 90 percent of the federal grants a district may receive under PL 81-874. This means that districts which receive large PL 81-874 grants can support their schools at levels above the state-calculated basic need. Although PL 81-874 grants are entitlements, school districts have to apply for them. Allowing districts to keep 10 percent of their PL 81-974 funds encourages them to take the trouble to apply.

Second, districts with the ability to levy local taxes (borough and city districts) must contribute a minimum level of local support for education. The state deducts from the foundation award the amount that would be raised by a four mill (0.4%) tax on the full value of property in the district (two years' prior), or 35 percent of basic need (in the preceding year), whichever is smaller. REAAs do not have the authority to collect taxes, so they are not required to contribute any local share. City and borough governments may increase their contribution above the required amount without losing any state support up to a maximum of six mills on full value, to a ceiling of $14,030 per educational unit (adjusted by the area cost differential). The state imposes the restrictions on local effort in order to meet the federal disparity test requirement for including PL 81-874 aid in the foundation program.

Rural borough and city districts generally fund a smaller share locally than do urban districts. The foundation formula encourages this result because it calculates a larger award for districts with smaller communities. Area cost differentials are also generally higher in rural areas.

Weighting Procedures: The mechanism that computes the number of educational units for a given school enrollment is quite complex. Table 1 outlines the formula used to calculate the number of instructional units — essentially classrooms that need to be staffed and maintained — for a school site, given the size of the school and the education program type. Programs include regular elementary and secondary, vocational, special, bilingual, and correspondence education.

Secondary programs generate more units than elementary programs, implying that it costs more per pupil to run a high school class than it does an elementary school class. An enrollment increase of 17 students will add one additional unit for a regular elementary school program, while it takes only 13 more students to add one to the number of regular high school units.

More importantly, although the number of units also varies with enrollment, the adjustment is not proportional. Communities with smaller enrollments receive more units per average daily membership (ADM) than do larger communities. In addition, communities with less than 200 students in either elementary or secondary schools — mostly rural remote sites — have an entirely different formula that gives them many more units than other schools. In calculating the number of units, the foundation program attempts to compensate districts for the higher cost of providing education in smaller communities. Vocational, special, bilingual, and correspondence programs generate additional percentage increments in the units generated by the regular instructional programs.

Table 1
Alaska Instructional Unit Formulas Effective in FY 1992-1995

		Min ADM	*Max ADM*
Elementary Instructional Units for funding Communities with more than 200 students in grades K-6	15 + (ADM - 200)/17		
Secondary Instructional Units for funding Communities with more than 200 students in grades 7-12	18 + (ADM - 200)/13		
Total Instructional Units for funding communities with fewer than 200 students in grades K-6 or fewer than 200 students in grades 7-12	2	1	10
	2 + (ADM-10)/5	11	20
	4 + (ADM-20)/8	21	60
	9 + (ADM-60)/12	61	120
	14 + (ADM-120)/15	121	525

Vocational Education: ADM * Weighting Factor * 0.05

Category	*Weighting Factor*
Category 1	0.5
Category 2	0.5
Category 3	0.5
Category 4	0.5

Special Education: ADM * Weighting Factor

Service	*Weighting Factor*
gifted and talented	0.025
resources	0.056
self-contained	0.100
intensive/ hospital homebound	0.333

Correspondence Instruction: Included in ADM of largest funding community in district

Bilingual / Bicultural: ADM * 0.042 * Language dominance category weight

Category	*Weighting Factor*
Category A	1
Category B	1
Category C	0.2
Category D	0.2
Category E	0.1

Vocational Education Categories
Category 1: health, consumer, homemaking, horticulture, commercial art, clothing/textiles, general marketing, food production, renewable and natural resources, forestry, agricultural services/supplies transportation and travel, wildlife management, business management, child care management, and surveying.

Bilingual Education Categories
Category A: students who speak a language other than English exclusively.
Category B: students who speak mostly a language other than English, but also speak some English.
Category C: Students who speak a language other than English and English with equal

Category 2: aircraft mechanics, communication technologies, commercial photography, agricultural mechanics, accounting and related, small engine mechanic, and automotive body repair.
Category 3: agricultural production, welding, industrial education, woodworking, automobile mechanics, electrical technician, drafting, fisheries, and diesel engine repair.
Category 4: graphics, secretarial/word processing, construction trades.

ease.
Category D: students who speak mostly English but also speak a language other than English.
Category E: Students who speak English exclusively but whose manner of speaking reflects the grammatical structure of another language.

By using average daily membership (ADM) in the community rather than ADA in the school to compute the number of units, the formula avoids providing an incentive for districts to build costly small schools in larger communities, a potential problem in the past versions of the formula.[3]

Adjustments for Special Factors: The third factor in the formula that determines basic need is the area cost differential. Formerly called the instructional unit allotment multiplier, the area cost differential scales the base instructional unit value for each region or district by a percentage representing a regional cost of living index. The differential is fixed at 1.0 for Anchorage, and rises to over 1.4 for districts in western and northern Alaska. Table 2 displays the area cost differentials currently in use for the state's 54 school districts. Because rural districts also contain most of the small sites, the regional differentials interact with the formula that generates the number of instructional units. The potential confusion created by this overlapping intent is increased by the fact that the area cost differentials currently in use do not generally coincide with estimates of actual cost of education differentials in these communities.[4]

Table 2
Area Cost Differentials Effective FY 1990-1995

Adak	1.27	Hoonah	1.08	Northwest Artic	1.45
Alaska Gateway	1.19	Hydaburg	1.03	Pelican	1.08
Aleutian Region	1.31	Iditarod	1.33	Petersburg	1.00
Aleutians East	1.31	Juneau	1.00	Pribilof	1.30
Anchorage	1.00	Kake	1.03	Railbelt (Denali)	1.23
Annette Island	1.03	Kashanamiut	1.33	Sitka	1.00
Bering Strait	1.39	Kenai	1.00	Skagway	1.05
Bristol Bay	1.27	Ketchikan	1.00	Southeast Island	1.04
Chatham	1.03	Klawock	1.03	Southwest Region	1.31
Chugach	1.14	Kodiak	1.09	St. Mary's	1.30
Copper River	1.14	Kuspuk	1.33	Tanana	1.30
Cordova	1.11	Lake & Peninsula	1.31	Unalaska	1.27
Craig	1.03	Lower Kkuskokwim	1.42	Valdez	1.11
Delta Greely	1.16	Lower Yukon	1.35	Wrangell	1.00
Dillingham	1.27	Mat-Su	1.00	Yakutat	1.08
Fairbanks	1.04	Nenana	1.20	Yukon Flats	1.46
Galena	1.30	Nome	1.34	Yukon-Koyukuk	1.34
Haines	1.05	North Slope	1.45	Yupiit	1.41

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[3] Matthew D. Berman and Eric Larson, *Education Equity and Taxpayer Equity: A Review of the Alaska Public School Foundation Funding Program*, ISER, September 1991.

[4] See Matthew D. Berman and Eric Larson, *Education Equity and Taxpayer Equity: A Review of the Alaska Public School Foundation Funding Program*, ISER, September 1991, Appendix A.

If school enrollment, as measured in total district-wide instructional units, declines by more than ten percent from the previous year, the reduction in funding can be phased in over a four-year period.

Aid Distribution Schedule: Foundation funds are distributed in monthly installments.

Districts Off Formula: The cap on required local effort of 35 percent of the prior year's basic need currently affects only three Alaska school districts, the North Slope Borough, and the cities of Valdez and Unalaska. The required local effort was implemented in FY 1988 with a transition clause. Local school levies rose from their 1987 mill rates to the required 4-mill full-value level over a three-year period, so many districts were not fully on the current formula until the 1991-92 school year.

III. TRANSPORTATION

Funding for 1993-94: $29.5 million (estimated).

Actual FY 1993 school district receipts for the program totaled $28.8 million.

Description: Alaska provides 100 percent of the funding for pupil transportation under a state grant program. The rationale for state funding of transportation is the enormous disparity in the cost of transportation among school districts around the state. Many communities in Alaska are not accessible by road, necessitating, for example, air travel for students to participate in any interscholastic athletic or cultural events.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

The state provided $22.2 million in capital appropriations for school construction in FY 1993. This figure includes grants to city and borough school districts as well as construction funds for the Regional Education Attendance Areas. No figures are yet available for the 1993-94 school year.

In addition to direct capital appropriations for schools, Alaska has since 1970 funded a program for reimbursing city and borough governments for a portion of debt service payments made for school facilities. The reimbursement percentage for new projects has varied considerably over the years, but remained at or above 80 percent through FY 1990. At times, cash outlays were eligible for reimbursement as well as bond-funded projects. Once bonds are approved for reimbursement at the rate prevailing at the time, the state continues to pay that percentage of debt service on those bonds until they are retired.

In 1990, the legislature cancelled the debt reimbursement program. Because many new school facilities were built during the early 1980s when the state reimbursement percentage exceeded 90 percent, costs for the debt service reimbursement program had risen to over $111 million per year in FY 1990. The local contribution, in contrast, was only $6.5 million. Only two years later, however, the program was reinstated, retroactively to 1990. The state currently promises to pay 70 percent of debt service costs incurred two years previously of new state-approved school construction projects, within certain funding limits.

State general funds for the debt reimbursement program are supplemented with proceeds from the cigarette tax. According to Alaska law (AS14.11.100(b)), state cigarette tax proceeds are distributed to school districts, which can use the funds for repairs, renovations, new construction, or debt service. This law, because it dates from territorial days, avoids the state constitutional prohibition on dedicated funding. Cigarette tax contributions are quite modest; the program provides about $2.7 million annually.

In the 1992-93 school year, cities and boroughs received $127.3 million for debt service reimbursement under the state program, of which $124.9 million consisted of general funds and $2.4 million in cigarette tax funds. REAAs do not have debt service costs, but could use their $0.3 million in cigarette tax entitlement for reimbursement of cash outlays.

Since 1990, local revenues for debt service have more than tripled, climbing to $22.1 million by FY 1993. State funds for the program are estimated to decline 20 percent to $99.8 million for FY 1994, in large part due to refinancing of debt. The local contribution should also decline for the same reason, although no figures are yet available for confirmation.

V. TEACHER RETIREMENT PROGRAMS

Before the 1987-88 school year, the state contributed the matching share toward the state Teachers Retirement System. The contribution in FY 1987 was $23 million. In the 1987 education finance reforms, the legislature passed the employer share of teachers retirement contributions on to school districts. There is no longer any specific state contribution, but because the foundation formula was extensively modified that year, one could say that teacher retirement has been rolled into the mechanism for determining the general foundation grant.

VI. SPECIAL EDUCATION

The state of Alaska budgeted $3.1 million in FY 1994 for special schools for handicapped children. These funds are distributed as special grants to the school districts that operate these facilities. Alaska has no additional program that provides funds for special education in regular schools. However, as shown in Table 1, the general foundation formula awards additional instructional units — and therefore more money — for four different categories of special education students. The weight factor in Table 2 of 0.025 for gifted and talented, for example, means that a district receives 2.5 percent of the value of an instructional unit ($61,000 times the area cost differential) for each student enrolled in a gifted and talented program. This amount is in addition to the regular elementary and secondary classroom units.

Although no data are specifically available on the amount of state foundation and local funds contributed for special education programs, 1994 data from the Alaska Department of Education show that 13.6 percent of total instructional units consisted of special education units.[5] One could infer, then, that about $81 million of FY 1994 state foundation funds are distributed to fund special education programs. However, there is no legal or regulatory requirement that school districts account for comparing the amount they spend on special education programs to the foundation funds acquired on behalf of these students.

VII. COMPENSATORY EDUCATION

Alaska has no program to provide aid for compensatory or remedial K-12 programs.

VIII. GIFTED AND TALENTED EDUCATION

Gifted and talented programs are considered as one of the four categories of special education in the Alaska Public School Foundation program. Please refer to the above discussion of special education programs in Section VI.

IX. BILINGUAL EDUCATION

Like special education, Alaska has no special program for bilingual education, but includes it as a source of additional funding in the general foundation formula. Table 1 shows that non-English speaking students, for example, receive 4.2 percent of the value of an instructional unit in addition to the contribution these students make through overall elementary or secondary enrollments.

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[5] *The Alaska School Foundation Funding Program: A Review*, Alaska Department of Education, January 1994, statistical appendix.

Although no official figures are available, data from the Alaska Department of Education show that 2.4 percent of total 1994 instructional units consisted of bilingual education units.[6] One could infer that bilingual education grants comprise about $14 million of FY 1994 state foundation funds. However, school districts are not required to spend an amount on bilingual education equal to the foundation funds acquired on behalf of these students.

X. OTHER CATEGORICAL PROGRAMS

The state contributed $15.8 million in FY 1993 in miscellaneous funds for school district operations. These grants include support for the community schools program, tuition for military dependents attending schools in some city and borough school districts, and a boarding home program to assist rural students who wish to attend school in a larger community.

However, Alaska supports two other important types of elementary and secondary programs — vocational education and special programs for rural students. Although the state provides very little direct funding for specific K-12 programs for vocational education, Table 1 shows that districts receive one additional instructional unit for every 40 students in vocational programs. Current state regulations set the weighting factors to be the same for all four categories of vocational education. Like special education, there is no requirement that districts actually spend an amount equal to their additional foundation award for vocational education.

The state sponsors two important programs to assist rural students in addition to the rural school district system provided by the REAAs. First, the state operates the Mount Edgecumbe High School in Sitka, serving about 270 students from rural areas. Mt. Edgecumbe is a boarding school that the U.S. Bureau of Indian Affairs operated until 1985. The school receives funding for its instructional program from the state foundation program, using the same formula as used by school districts. Its residential program receives a separate line item in the state budget. Second, the state runs a centralized correspondence study program for about 1,500 students not otherwise enrolled in a school district correspondence program. Total state funds for these state-operated schools, including foundation funds, amounted to $7.1 million in FY 1993.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Alaska has no program of state aid for private schools. Some school districts allow private school students to participate in certain public school activities, at the discretion of local school boards.

XII. EARLY CHILDHOOD EDUCATION

In addition to the federally funded Head-Start program, the Alaska Department of Education provides a small amount of funding for grant programs for developing early childhood curriculum. These funds are not ordinarily available to school districts.

XIII. LOCAL SCHOOL TAX REVENUE

During the 1992-93 school year, the latest period for which local government financial information is available, Alaska cities and boroughs raised $217.0 million from local taxes to fund their school districts. REAA districts are not contained in a borough or city with taxing authority, so they do not receive local tax revenues.

Alaska's 34 city and borough school districts nominally have independent authority over budgets, but local tax support can only be obtained from the general local legislative bodies. Consequently, all local revenue may be considered as potential school district revenue. Local taxes distributed by municipal assemblies to school districts amounted to 30 percent of the total $722.7 million in Alaska local tax revenues in 1993.[7]

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[6] *Ibid.*

[7] Local tax assessment statistics and revenue figures are reported in *Alaska Taxable, 1993*, vol. 33, Alaska Department of Community and Regional Affairs, Juneau.

In Alaska, the sales tax has historically been reserved for local jurisdictions; local governments rely heavily on sales and excise taxes as well as property taxes. Neither the state of Alaska nor any of its local governments levy income taxes at the present time. Table 3 summarizes tax revenues received by all local jurisdictions in Alaska in 1993.

Table 3
Alaska Local Government Taxes, 1993

City and Borough totals	*Total local taxes ($ million)*	*Per-capita taxes[a] Dollars*
Property taxes		
Locally assessed property	$347.4	$580
Oil and gas (state assessed)	266.0	444
Total property taxes	613.4	1,024
Other local taxes		
General sales taxes	84.8	142
Excise taxes	24.5	41
Total other local taxes	109.3	182
Total Local taxes	$722.7	$1,206

a Revenue-sharing population: 599,200. Source: *Alaska Taxable, 1993* .

Property Tax

The state foundation formula defines required local effort (for city and borough school districts) as an amount equal to that which would be collected by a four mill tax on the full value of real and personal property. The Alaska Department of Community and Regional Affairs annually reviews data prepared by all local taxing jurisdictions to estimate assessment ratios, in order to compute the full-value tax base for non-petroleum property. The state of Alaska also assesses and taxes oil and gas exploration, production, and transportation property (not including the value of mineral reserves). Local governments may include this property in their local tax base, with the state deducting the local mill rate from the state's 20 mill base rate.

In 1993, Alaska local governments raised $347.4 million from locally assessed (non-petroleum) property taxes and $266.0 million in state-assessed (oil and gas) property taxes (Table 3). These amounts compute to $580 and $444 per capita, respectively, using a 1993 population estimate of 599,200. One jurisdiction, the North Slope Borough, collected 87 percent of all local oil and gas property tax revenue.

Sales Taxes

Table 3 shows that in 1993, city and borough governments collected $109.3 million, or $182 per capita, in sales and excise taxes. More than three-fourths of this amount came from general sales taxes. Many of the Alaska's smaller cities have a very limited property tax base, so they rely heavily on sales tax revenue to fund general government operations.

Tax Credits and Exemptions

State law provides a real property tax exemption for owner-occupied homes of seniors (an Alaska resident 65 years of age or older) and disabled veterans, up to $150,000 of assessed valuation. The state partially offsets the effect of this exemption on the local tax base. In 1993, municipalities received $1.6 million from the state to reimburse them for the estimated $14.8 million loss in property tax revenues.[8]

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[8] *Alaska Taxable, 1993,* page 54.

Alaska also requires boroughs to assess land used for farming at its value as a farm, even if the land would be more valuable if converted to other land uses. If the land is converted to a non-farm use, the owner pays a deferred tax at the higher rate for the previous seven years. The five borough governments with farms deferred collecting an estimated $0.4 million in property taxes under this program. The farm use program costs relatively little because not much land near urban areas in Alaska is used for farming.

XIV. TAX AND SPENDING LIMITS

Tax Limits

State law limits per-capita assessed value in a city or a borough to 225 percent of the average per-capita value, and local tax rates for operating expenditures cannot exceed 30 mills on the assessed valuation. These provisions have practical significance only for the North Slope Borough and the city of Valdez.

The state foundation program allows local governments to increase the local contribution to school districts beyond the required level of local effort. Tax revenues raised by taxes exceeding four mills on full property value (or exceeding 35 percent of basic need) are not deducted from the amount of state aid to the district. The state, however, limits local tax contributions for school district operating budgets to the amount that would be collected by a six mill property tax, or an additional 23 percent of basic need ($14,030 per educational unit, adjusted by the area cost differential), whichever is less (AS 14.17.025(b)).

Spending Limits

School districts do not have any state-imposed minimum or maximum spending or bonding limits. As mentioned above, municipal assemblies may indirectly limit education spending through their control of the local contribution to school districts.

Voter Approval of Budgets and Bond Issues

Elected local school boards for city and borough districts submit requests for local funds to the appropriate borough assembly or city council. The local contribution to school budgets must be approved by the general local legislative body (and signed by the mayor) along with other municipal budget items. Citizens do not vote on school operating budgets.[9] Bond issues for construction projects do require voter approval, however. The process follows that of financial requests for operating budgets, except that after bond proposals win assembly approval, they are placed before the electorate in the next general municipal election. Because of the review before local assemblies as well as school boards, and the incentive offered by the state debt retirement program described above, voters have approved most school bonds in recent years. School boards need to obtain assembly approval again each time they wish to place a failed bond issue before the voters.

REAA districts have no local governments to turn to with the authority to levy taxes for operations or debt service. REAA's elected school boards therefore control district budgets. In practice, however, the state foundation formula, supplemented by the ability of district staff to obtain federal grants, determines the size of REAA operating budgets. REAAs obtain construction funds only by approval of the Alaska state legislature.[10]

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[9] Voters may use the initiative process to limit the powers of local government bodies to spend or levy taxes without voter approval. Anchorage voters, for example, have placed a formula limitation on total municipal spending, including school district expenditures.

[10] Thomas Morehouse, Gerald McBeath, and Linda Leask, *Alaska's Urban and Rural Governments*, Lanham, MD: University Press of America, 1984, contains an excellent discussion of the history of Alaska school governance and the evolution of the relationship between school boards and local assemblies.

XV. EARMARKED STATE REVENUE

Alaska's constitution generally prohibits dedication of revenue. Exceptions are funds made available to the Alaska territory and grandfathered at statehood, and voter-approved constitutional amendments. Two of the former type of exception are relevant to education finance. As mentioned above, a portion of state cigarette tax proceeds are distributed to a "public school fund" that can be used only for repairs, renovations, new construction, or debt service for school facilities. The program contributes about $2.7 million annually.

The Mental Health Trust Fund was also established in the 1950s to serve the needs of the territory's mentally ill population. Prolonged litigation over the state's handling of the trust was finally settled in 1994. It is not possible to determine yet how much revenue, if any, the reconstituted trust will supply to school districts. Before resolution of the litigation, the state budgeted in FY 1993 that the Mental Health Trust Fund would make a contribution of $5.7 million to the foundation and an additional $1.8 million to fund school district grants for special education.

XVI. SPECIAL TOPICS

Innovative or Trial Education Programs[11]

The State of Alaska is funding a four-year demonstration project of the effects of reducing the pupil-teacher ratio (PTR) in public elementary classrooms. The goal of the *Elementary School Class Size Reduction Pilot Project* is to assess the extent to which targeted reductions in class size, combined with other teaching strategies (such as increasing students' tutorial and small-group time) improve student learning in the most cost-effective manner. Districts participating in the project maintain a PTR not exceeding 15:1 in grades K-4 and endeavor to maintain a ratio not exceeding 20:1 in grades 5 and 6. All schools participating in the project train teachers to implement changes in instructional practices, as well as reduce the pupil-teacher ratio during periods of instruction in reading, language arts, and mathematics. Participating schools also train volunteers to assist in small-group instruction and utilize other strategies to increase community and parent involvement, accommodating specific site needs.

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[11] Annmarie O'Brien contributed this section of the chapter.

ARIZONA

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I. GENERAL BACKGROUND

State

- The state share of general fund revenues for K-12 public schools was 39.0 percent in 1993-94. Additional state funds are provided through a local property tax homeowner's rebate program under which 35 percent of the property tax on an owner-occupied residence is forgiven.
- The principal source of state revenue for the public schools is the state general fund. The major revenue sources for the state general fund are sales and income taxes. For 1993-94, general fund appropriations for K-12 public education totaled $1,453.7 million *(The rollover from 1992-93 into 1993-94 is excluded and the rollover from 1993-94 into 1994-95 is included.)* In addition, 1993-94 state land revenues generated about $52.3 million. The state share of the equalization program was $1,461.8 million.
- The current state equalization program was enacted in 1980; modifications were made in 1985. Of the total state funds for public schools, 97.1 percent is for the state equalization program and 2.9 percent is for categorical programs.
- Since 1980, local school district expenditures have been limited by statute. The expenditure control provisions in the Arizona program are among the most stringent in the nation.
- Since 1981-82, Arizona has had a constitutional limit on the aggregated total spending by all local school districts.

Local

- The state has a total of 226 school districts. Four are special districts that have no tax base and serve special populations; these districts have 0.4 percent of the total ADM for the state. Of the remaining 222 fiscally independent districts, 88 are unified or K-12 districts with 62.5 percent of the total ADM, 18 are union high school or 9-12 districts with nine percent of the total ADM, 66 are elementary districts that are part of a union high school district with 26.8 percent of the total ADM, and 50 are elementary districts not in a union school district with 1.3 percent of the total ADM. This last group of districts pays the cost of educating its resident high school students on a tuition basis.
- Property taxes constitute the sole source of local district tax revenues. Voter approval is not required to levy the qualifying tax rate, but is required for overrides to supplement the foundation program and bonds for construction.
- Arizona does not have a constitutional limit on local property tax rates, but does have a limitation on the aggregated total spending by all local school districts.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,506 million
Grants in aid	1,506 million	
Teacher retirement contribution	0	
FICA	0	
Total Local School Tax Revenues[1]		$1,586 million
Property Tax Revenue	1,565 million	
Other Local Source Tax Revenue	0	
Local Source Non-tax Revenue[2]	21 million	
Total Combined State and Local School Revenue		$3,092 million
State Financed Property Tax Credits Attributable to School Taxes[3]	119 million	

[1] Includes $129 million in County Equalization (see Section XIII).
[2] Includes interest, proceeds from sale and lease of property, and tuition including district-to-district tuition.
[3] Included in Total State School Aid.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $1,461.8 million (97.1% of total state school aid).

Nature of Program: Foundation program, including state funding for maintenance and operation, school transportation, capital outlay, and capital levies. For maintenance and operation, the state limits expenditures in all districts except for a group of low-enrollment districts. With the exception of the capital levy funds, state funds are considered to be block grants. School districts are not required to spend specific amounts on specific programs, and the monies allocated for capital outlay may be budgeted for maintenance and operations.

Allocation Units: Pupils. Weighted students in average daily membership (ADM).

Local Fiscal Capacity: Assessed property valuation.

How Formula Operates: The state equalization formula provides $2,440 per weighted student for maintenance and operation (plus additional funding for school transportation, capital outlay, high school textbooks, and capital levies) from a combination of state, county, and local funds.

State Share: The state payment is the difference between the district's formula entitlement and the amount raised by the qualifying tax rate from local and county tax sources. In addition, the basic support program includes the 35 percent homeowners' rebate paid by the state.

Local Share: For elementary school districts in a high school district and for high school districts, the local share or qualifying tax rate is $2.36 per $100 of assessed valuation; for elementary school districts not in a high school district and for unified school districts, the qualifying tax rate is $4.72 per $100 of assessed valuation. However, local districts are not required to levy the qualifying tax rate as a condition for receiving the state equalization payments. In addition, the proceeds from a county equalization tax of $0.53 per $100 of assessed valuation are included in the equalization calculation.

Weighting Procedures: The weight for students in preschool programs for children with disabilities is 1.450, for students in grades K-8 is 1.158, and for students in grades 9-12 is 1.268. This basic weight incorporates funding for programs for career exploration, a specific learning disability, an emotional disability, mild mental retardation, remedial education, a speech/language impairment, homebound, bilingual, preschool moderate delay, preschool speech-language delay, other health impairments and gifted pupils.

Add-on weights are used to provide additional funds for the following categories of students:

Program	*Add-On Weight*
(1) Vocational education	0.071
(2) Hearing handicapped	2.353
(3) K-3	0.040
(4) LEP (limited English proficient)	0.060
(5) Multiple disabilities, autism, and severe mental retardation (resource program)	0.762
(6) Multiple disabilities, autism, and severe mental retardation (self-contained)	2.489
(7) Multiple disabilities with severe sensory impairment	4.079
(8) Orthopedic impairments (resource program)	0.603
(9) Orthopedic impairments (self-contained)	2.678
(10) Preschool severe delay	2.500
(11) Emotional disabilities, mild mental retardation, specific learning disability, speech/language impairment, and other health impairments *	0.003
(12) Emotional Disability (Private)	1.539
(13) Moderate Mental Retardation	2.084
(14) Visual Impairment	2.928

*This weight is applied to all pupils in these programs, but is designed to cover only the costs of extended school year programs for those pupils in these programs who require this service; the remainder of the program costs are included in the basic weight for the grade level.

Students must be eligible and be participants in the programs for the school district to receive the funds, but school districts are not required to expend the funds on the programs or students used to generate the funds. However, federal regulations require that disabled students be provided with a free and appropriate education irrespective of the amount of state funds.

Adjustments for Special Factors: Additional funds are provided for several reasons, including the higher costs of low enrollment and isolated school districts, and higher salary costs for more experienced teachers.

Small isolated schools are those that have an ADM of less than 600 and are located more than 30 miles from the nearest school that offers instruction in one or more of the same grades and that is operated by another Arizona school district. The grade level weights per ADM in low enrollment and isolated school districts are as follows:

ADM	*K-8 Small Isolated*	*K-8 Small Non-Isolated*
0-99	1.559	1.399
100-499	1.358 + [0.0005 x (500 - ADM)]	1.278 + [0.0003 x (500 - ADM)]
500-599	1.158 + [0.002 x (600 - ADM)]	1.158 + [0.0012 x (600 - ADM)]

ADM	*9-12 Small Isolated*	*9-12 Small Non-Isolated*
0-99	1.669	1.559
100-499	1.468 + [0.0005 x (500 - ADM)]	1.398 + [0.0004 x (500 - ADM)]
500-599	1.268 + [0.002 x (600 - ADM)]	1.268 + [0.0013 x (600 - ADM)]

The weights, while complicated, are graduated to insure that a district does not lose funding as it increases in size and moves to a lower weight.

A teacher experience index is calculated annually for all teachers in the state, and additional funds are provided to those districts whose recognized teacher experience exceeds the state average. For eligible districts, an index is used to increase the total number of weighted students used in the calculation of the base support level or state equalization payments. The calculated teacher experience index for each district is the average experience recognized in calculating the salary for each of the teachers in the district. The state average is the average for all teachers in the state, not the average of the district experience indexes. For districts whose teacher experience is above the state average, the number of weighted pupils is increased by two percent for each year that the district's average is above the state average.

In addition, there is a formula adjustment for "growth" school districts in which the number of students is over three percent greater than in the prior year, and "rapid decline" districts in which the number of students is less than 95 percent of the prior year's count.

Additional adjustments include an increase to cover the costs of mandated audits and an increase of up to 5.5 percent in the base dollar amount per weighted student for districts that choose to participate in one of two performance-based pay programs. The districts that participate in one of these programs must also increase the qualifying tax rate in proportion to the percentage increase in the base amount. This increase in the qualifying tax rate covers approximately one-third of the costs of these programs on a statewide basis.

Aid Distribution Schedule: Information not available.

Districts Off Formula: 21 of 226 (9.3 percent). This figure also applies to transportation aid, capital outlay, high school textbook aid, and capital levies since these aids are included in the equalization calculation. Arizona does not have a hold-harmless clause that guarantees basic level support.

III. TRANSPORTATION

Funding in 1993-94: Specific state funds for school transportation cannot be identified because state payments are included in the calculation of the total state aid entitlement for each district.

Description: A district's entitlement is based on the approved daily route-miles for school transportation and the number of eligible students transported. Additional funding is provided for academic, vocational, and technical education, and athletic trips on an index basis. The following formula is used in calculating a district's transportation support level:

Approved Daily Route-Miles per Eligible Student Transported	*State Support Level Per Route-Mile*
0.500 or less	$1.91
0.501 - 1.000	$1.56
1.001 or more	$1.91

The index for allocating the additional funds for academic, vocational and technical education, and academic trips is shown in the following table:

Approved Daily Route-Miles per Eligible Student Transported	*Factor*
K-12 districts and K-8 districts not in a high school district	
0.001 - 1.000	.15
1.001 or more	.18
K-8 districts in a high school district	
0.001 - 1.000	.10
1.001 or more	.12
High school districts	
0.001 - 1.000	.25
1.001 or more	.30

State and Local Shares: State and local shares for school transportation cannot be identified because state payments are included in the calculation of the foundation program.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

The Arizona foundation program includes funding for capital outlay and capital levy expenditures from state and local funds. For capital outlay, the state foundation program guarantees $221.33 per K-8 student and $262.69 per 9-12 student. A textbook allowance of $68.31 per 9-12 student also is included in the calculation. The capital levy amount is $171.97 per student. Adjustments in both payments are made to provide additional funds for low-enrollment school districts. Since their inclusion in the Arizona foundation program, the formula amount for these programs has been adjusted by the inflation adjustment in the same manner as the basic allotment per student. Use of capital levy funds is restricted to capital expenditures and debt service payments; however, capital outlay monies may be budgeted for maintenance and operation and used for current operations.

Local Capital Project Financing

School districts meet their capital needs through current funds, general obligation bonds, sale of property, and cash reserves.

Current Funds. The state foundation allotment for capital outlay and debt levy expenditures guarantees districts access to about $400 per student for capital outlay and debt service purposes. Districts also may raise funds for capital projects by securing voter approval of a capital override to have a special levy that permits spending beyond the expenditure limit for up to ten years.

Bonds. Voter approval is required for school districts to issue general obligation bonds for capital outlay purposes. The Arizona Constitution limits the amount of general obligation bonds to 15 percent of the assessed value of taxable real property in elementary and high school districts and 30 percent of the assessed value of real property in unified school districts. These bonds are retired with the receipts of a debt service tax rate or current funds.

Other. Capital outlay expenditures may be funded from accumulated cash reserves for capital outlay, sale of property, gifts, and, for certain districts, cash balances accumulated from unexpended revenues.

V. TEACHER RETIREMENT

No earmarked appropriation is made for teachers' retirement. Public school teachers are covered under the state public employees retirement program. The current contribution rate for teachers is 3.14 percent of the salary. The individual contribution level is reviewed and adjusted periodically.

Local school districts make the employer's contribution to FICA and the state retirement fund. The state's funding requirements and the employees' share are computed on an annual basis by actuaries to determine if the reserve funds are sufficient to meet the future obligations of the fund. Retirees also may secure health insurance for themselves and their dependents.

VI. SPECIAL EDUCATION

State funding for special education is through the add-on weights in the foundation program. Information on the weights may be found in Section II — The Basic Support Program.

VII. COMPENSATORY EDUCATION

The state does not provide state funding for compensatory education. Discretionary competitive grants have been used to fund programs and services for at-risk youth in a small number of local school districts. Additional detail on these programs can be found in Section X — Other Categorical Programs.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $1.0 million (less than 1.0% of total state school aid).

Description: Funding is provided for grants for additional services to meet the educational needs of gifted pupils and to establish school district gifted demonstration and training sites. School districts that comply with the statutory provisions related to programs for gifted pupils may apply for additional funding equal to $55 per pupil for three percent of the student count, or $1,000, whichever is greater. Of the total funds, $900,000 is for direct grants to school districts, $50,000 is for demonstration and training sites, and $50,000 is for the State Department of Education to provide staff for technical assistance and support for local school districts.

Extent of Participation: The foundation program also includes an unspecified amount for gifted and talented education; the categorical grants are allocated on an application basis as described above.

IX. BILINGUAL EDUCATION

State funding for limited English proficient students is through an add-on weight in the foundation program. Information on the weight may be found in Section II — The Basic Support Program.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $5.8 million (less than 1.0% of total state school aid).

Description: In addition to an add-on weight of .071 provided in the basic state aid program, $5.8 million in state funds is provided to several categories of state grants to local school districts. The various programs supported include training in areas devoted to "high demand" occupations, programs that assist rural vocational programs, programs that help districts to develop comprehensive vocational programs beginning in the seventh grade, and statewide technical assistance with vocational student organizations. Eligibility for funding is based on meeting state standards and requirements. For the high-demand occupations, the state has a priority listing of vocations that serves as the basis for funding allocation.

Court Ordered Desegregation

Funding in 1993-94: $91 million (local school district funds only).

Description: Districts under federal court orders or consent decrees are permitted to exceed the expenditure limits for approved activities designed to address desegregation issues.

State and Local Shares: No state funds are provided. All funding for the program ($91 million in 1993-94) is from local tax sources, except for the cost of the homeowner's tax rebate (see Section XIII).

Extent of Participation: Local tax rates for desegregation programs were being levied in one rural and 14 urban school districts.

K-3 "At-Risk" Programs

Funding in 1993-94: $6.9 million (less than 1.0% of total state school aid).

Description: As discretionary grants, $6.9 million in state funds was provided in 1993-94 as the state's continued funding of a program of grants to school districts with large percentages of pupils in kindergarten programs and grades 1-3 who are at risk of not succeeding in the educational system and for full-day kindergarten programs for such pupils. The sum of $278,000 was allocated to the state educational agency for technical assistance and evaluation.

7-12 Dropout Prevention Programs

Funding in 1993-94: $2.2 million (less than 1.0% of total state school aid).

Description: As discretionary grants, $2.2 million in state funds was provided in 1993-94 as the state's continued funding of a program of grants to school districts with large percentages of pupils in grades 7-12 who are at risk of not completing high school graduation requirements. Of the total, $2.0 million was for local school district programs.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $2.5 million (less than 1.0% of total state school aid).

Description: As discretionary grants, $2.5 million in state funds was provided in 1993-94 as the state's continued funding of a program of grants to school districts for preschool programs for four-year olds residing in the attendance areas of schools with the greatest numbers of "at-risk" children. *For 1994-95 the amount was increased by $10 million to $12.5 million and the grants were to be made available to federally-funded preschool programs and to private providers as well as public school districts wishing to provide preschool programs for at-risk preschool children.*

Funding for preschool children with disabilities is included in the basic support program (see Section II).

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax revenue source for schools except for in-lieu-of tax payments from a large public utility. In 1993-94, property tax receipts for the equalization program and expenditures above the expenditure limit, including the voter approved referendum overrides, were $1,037 million. The majority of the revenue is from a primary tax levy. The overrides are funded by a secondary tax levy and generate about $107 million in spending capacity. The revenue for the overrides is not from a tax levy in all cases. The primary tax also included $9 million for "adjacent ways," which is improvement to property adjacent to the district property. The secondary tax levy included a total debt service levy of about $407 million.

In addition, the county tax rate of $0.53 per $100 of assessed valuation raised $129 million, which is part of in the equalized foundation program available to local school districts.

For tax purposes, property is grouped into 13 classes and tax rates are applied to varying percentages of real value, i.e., owner-occupied residences at ten percent; agricultural at 16 percent; rental property at 11 percent (10% for tax year 1994); mines and utilities at 30 percent (to be phased down to 25% by tax year 1999), railroads at 24 percent, and commercial property at 25 percent. Determination of values is the responsibility of the county tax assessor.

Arizona does not have a state program for comparing assessment practices and determining the equalized assessment values of real property among school districts.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

The state has two programs that temper the effect of the property tax. The first is the homeowners rebate, under which 35 percent of the primary property tax levy on an owner-occupied residence is forgiven; the state rebates the difference to local school districts. The second program provides that, in the event that the total tax liability on a residential parcel exceeds one percent, the taxes are reduced to one percent, and the state makes up the difference. In 1993-94, the estimated state funds for these two programs was $119 million.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Arizona does not have a constitutional limit on local property tax rates, but does have a limitation on the aggregated total spending by all local school districts.

Spending Limits

Since 1981-82, Arizona has had a constitutional limit on the total spending by all local school districts. The limit is on maintenance and operation or current operations and does not include federal grants, capital levies, or debt service; however, state special projects and federal impact aid payments are included in the limitation. Increases are permitted each year based on the increases or decreases in the number of students and the changes in the gross national product price deflator. The constitution was amended in 1986 to permanently increase the limit by an additional ten percent. The limit may be exceeded by vote of a two-thirds majority of the House of Representatives and the Senate, but this approval is required on an annual basis.

In addition to the constitutional limitation, the expenditure control provisions in the Arizona foundation program are among the most stringent in the nation. Irrespective of the taxable property in the individual school district, per-student spending limits for maintenance and operation stipulated in the state equalization program cannot be exceeded except under specified conditions. These conditions include authorization for districts with fewer than 125 students in grades K-8 or fewer than 100 students in grades 9-12, voter approval of a limited-term general ten percent override or additional five percent K-3 override, and statutory provisions for court-ordered desegregation and minor items such as dropout prevention, registered warrants, excess insurance expenditures, and excess utility expenditures. For all districts in the state, the aggregated total 1993-94 budget for these items outside of the spending limits exceeded $265 million, or about 10 percent of the total budget for maintenance and operations.

Voter Approval of Budgets and Bond Issues

Voter approval is not required to levy the qualifying tax rate, but is required for overrides to supplement the foundation program and bonds for construction.

XV. EARMARKED STATE REVENUE

The only earmarked state source of revenue for school districts is income from state public land. In 1993-94, revenues for schools generated from this source were $52.3 million.

XVI. SPECIAL TOPICS

None.

ARKANSAS

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I. GENERAL BACKGROUND

State

- The state share of public education revenue exceeds 60 percent and has been increasing over the past decade.
- The present system was adopted as the result of a state supreme court order declaring the previous system unconstitutional in the case of Alma v. Dupree. The current formula took effect in 1983-84.
- Major changes since 1990-91:
  1. An improved method of calculating growth in terms of enrollment so that districts may receive added funds in the year the growth took place.
  2. The charge, or the millage rate used to calculate local property tax revenue for state aid purposes, may now rise to the state average millage.
  3. Only one kind of property value is now used in the calculation of state aid. Previously, three kinds of property value were used. However, the three still exist for local taxation purposes.
- There is a court challenge to the current formula: Lake View v. Tucker.
- In March 1994, the legislature created a commission, made up of members of the legislature and state board of education, to study the current finance plan and find ways to simplify it and make it more equitable.

Local

- In 1993-94, there were 315 schools districts. All are fiscally independent. There are no special districts.
- District revenues are derived from the property tax, miscellaneous income from Federal payments such as forest reserve and flood control, and payments in lieu of taxation.
- Major changes since 1990-91:
  1. Household goods have been removed from the property tax rolls.
  2. Automobile dealers inventories are no longer assessed as the average value for the year but rather their condition on one day.

Both of these changes have resulted in lost local revenue.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,178 million
Grants in aid	1,060 million	
Teacher retirement contributions	118 million	
FICA	0	
Total Local School Tax Revenue		$493 million
Property tax revenue	493 million	
Other local tax source revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$1,671 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $901.4 million (76.7% of total state school aid).

Nature of Program: Foundation with a small second tier.

Allocation Units: Pupils. Weighted Average Daily Membership (WADM). Average Daily Membership (ADM) is first calculated on the basis of the average for the first three quarters of the previous school year. Aid is recalculated according to a formula. This is the previous year first quarter ADM plus the previous year three quarters average minus the current years first quarter ADM plus the projected three quarters ADM. If the growth is one or greater, district aid is recalculated.

Since recalculation of one district requires the recalculation of all, districts losing ADM are allowed to use a three year average. This is phased in starting with the 1993-94 school year and is based upon increases in Minimum Foundation Aid to the amount of $60,000,000. Districts losing ADM will be credited with more until that increase is reached.

Local Fiscal Capacity: Equalized assessed property valuation.

How Formula Operates: Weights are added to ADM creating WADM for each district. Local property value is charged at the rate of 25 mills and added to this is 75 percent of miscellaneous funds such as payments in lieu of taxation. This sum is then divided by district WADM yielding local resources per pupil. Resources per pupil are then subtracted from $1,200 and multiplied by the number of teachers with masters degrees. The result is termed the masters degree allowance and is subtracted from the total local district resources and the remainder is again divided by the district WADM. Districts are then ranked in descending order based on the recalculated local resources per pupil.

The state Department of Education then adds the recalculated total local resources to the foundation appropriation by the legislature. The result is divided by the total statewide WADM. This yields the equalization rate. Should any district or districts have a greater local resource per pupil than the equalization rate, their total district local resources and WADM are removed from the statewide totals and the state equalization rate is recalculated. The 1993-94 equalization rate was $2494.92.

State Share: Districts receive the difference between their local resources and the state equalization rate multiplied by their WADM.

Local Share: The local share is equal to the charge of 25 mills. This charge will increase at the rate of .1 mills for each additional $2.5 million apportioned by the state. Local districts must either tax at the rate of 22 mills or pay their teachers in the top ten percent of districts. Should they not do so they lose their weight for vocational education and gifted and talented education.

Weighting Procedures: All weights are add-ons.

Special Education

Itinerant	.40
Resource Room	.85
Self-contained (Ratio of 1-15)	.70
Self-contained (Ratio of 1-10)	1.10
Self-contained (Ratio of 1-6)	2.00
Special School, Day	2.35
Residential Placement	3.10

Vocational Education

	Service hour	*Full Time Equivalent*
Group 1	.067	.40
Group 2	.083	.50
Group 3	.100	.60
Group 4	.150	.90

Gifted & Talented Education

.25 up to five percent of its ADM of the previous year.

Isolated Schools: Schools defined as isolated receive funds on the following formula:

$$\frac{ADM(350-ADM)}{600}$$

Adjustment for Special Factors: Only the recalculation based on growth and the phase out for loss in ADM previously described.

Aid Distribution Schedule: Total district aid is divided by 11 and paid in equal installments every month except July.

Districts off Formula: Three districts do not secure MFP aid as their local resources are too high.

The Second Tier

Funding: Five percent of the increased funds provided by the legislature in state allocation for MFP over the preceding year.

Eligibility: Districts must levy a local millage equal to or in excess of the charge on property, which is currently 25 mills.

How Formula Operates: Districts are ranked in descending order based on their total local resources per pupil. The bottom-most district is then raised to the level of that second from the bottom. These two are then raised to the third and so on until the funds are exhausted.

Extent of Participation: 32 districts.

III. TRANSPORTATION

Funding in 1993-94: $48.2 million (4.1% of total state school aid).

Description: The program is four tiered. The first tier is calculated by dividing the average number transported (ADT) into the total square mileage of the district. This ratio is compared to a table which yields a dollars per ADT amount. The second tier is a bus allowance for each bus in regular service. Larger buses receive a larger reimbursement. The third tier pays for drivers and mechanic training. The district receives funds for each driver and mechanic who attends a state sponsored workshop. The fourth tier provides an allowance for buses for the handicapped and special transportation for children with disabilities. No equalization factor is included. Districts receive the total sum from all four sources. Any state funds not spent for transportation are reverted to the state.

State Share: The calculated amount.

Local Share: Districts must pay for any added cost of transportation over the state allowance.

Extent of Participation: All 315 districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Funding in 1993-94: $17 million in loans outstanding

Description: Districts may borrow money from the revolving loan fund. Districts of less than 2,000 students may borrow up to $200,000; districts if between 2,000 and 3,000 students may borrow up to $250,000; and districts of over 3,000 students may borrow $300,000. Funds are borrowed from a $10 million fund in the state treasury. When loans exceed this amount they are bundled and sold to the highest bidder. The proceeds are used to pay the state treasury and free up added dollars for loans. Districts are charged seven percent interest and the term of the loan is six years.

State share: All

Local Share: None

Extent of Participation: 221 districts

Debt Service

There is no state program for debt service.

Local Capital Project Financing

All major construction is funded through local capital outlay. This may also include buses. The cost of the construction is estimated. A millage rate that yields 150 percent of the annual cost of a twenty year amortized bond issue is calculated and the result voted on by the citizens of the district at the annual school election in September. Bonds are then sold through an underwriter.

Local districts are limited in bonding to 22 percent or with permission of the state board of education to 25 percent of local property assessment.

V. TEACHER RETIREMENT

Funding in 1993-94: $118 million (10% of total state school aid).

Description: The state appropriates an amount equal to 12 percent of teacher salaries as its contribution to the teacher retirement system. The amount is calculated from the total amount paid as salaries during the previous year. Teachers have the option of being a contributing member of the retirement system and contributing six percent of their salary, or being a non-contributing member and paying nothing. Benefits vary accordingly.

State and Local Shares: Local districts do not contribute to the teacher retirement system.

Extent of Participation: All districts.

Social Security

All of the employees share of FICA is paid by local school districts. There is no state funding for this.

VI. SPECIAL EDUCATION

The bulk of special education costs are covered by weights in the basic school program. There are a few small categorical programs.

Early Childhood Special Education

Funding in 1993-94: $ 3.2 million (less than 1.0% of total state school aid).

Description: Three to five year olds identified as in need of special education are provided with suitable programs..

State Share: All.

Local Share: None.

Extent of Participation: 15 cooperatives and 9 school districts.

Special Education Services

Funding in 1993-94: $3 million (less than 1.0% of total state school aid).

Description: Funds are provided to the 15 educational cooperatives (as well as school districts) for special education supervisors and an extended school year.

State Share: All.

Local Share: None.

Extent of Participation: 15 cooperatives.

Crippled Children

Funding in 1993-94: $143 thousand (less than 1.0% of total state school aid).

Description: Funds are contributed to Easter Seals

State Share: All

Local Share: None

Extent of Participation: No school districts

Orphans Aid

Funding in 1993-94: $81 thousand (less than 1.0% of total state school aid).

Description: Funds are distributed to districts that contain orphanages.

State Share: All

Local Share: None

Extent of Participation: 6 districts.

VII. COMPENSATORY EDUCATION

Remediation Programs

Funding in 1993-94: $11.4 million (less than 1.0% of total state school aid).

Description: Eligible students are those in grades K-3 who are at the 25th percentile or less on standardized tests are provided with a summer session. The funding is equally divided by the number eligible in the state and each district receives an equal amount per pupil.

State Share: All.

Local Share: None.

Extent of Participation: All districts.

VIII. GIFTED AND TALENTED EDUCATION

The bulk of the expenses for gifted and talented education is covered by a weight in the basic formula. There is also a small categorical program.

Gifted and Talented

Funding in 1993-94: $1.9 million (less than 1.0% of total state school aid).

Description: Funds are distributed on the basis of grants to districts, cooperatives, and universities for start up and for supervision and improvement of service to gifted and talented students.

State Share: All.

Local Share: None.

Extent of Participation: 15 cooperatives.

IX. BILINGUAL EDUCATION

There is no state aid provided for bilingual education. The small bilingual programs that exist are federally funded.

X. OTHER CATEGORICAL PROGRAMS

School Food Service

Funding in 1993-94: $1.6 million (less than 1.0% of total state school aid).

Description: Funds are provided to meet the aid requirement for matching the USDA local service (school lunch) program. A standard meal count is taken on October 1. The number of meals served on that date serves as a basis for dividing the money to match federal school lunch funds.

Extent of Participation: All districts.

Workers' Compensation

Funding in 1993-94: $0.5 million (less than 1.0% of total state school aid).

Description: The state pays the workers' compensation premium for all teachers.

State Share: All.

Local Share: None.

Extent of Participation: All 315 districts.

Public School Employee Insurance

Funding in 1993-94: $36 million (3.1% of total state school aid).

Description: The state contribution $99 per month toward the cost of health insurance coverage for certified and non-certified school employees. A non-certified person working less than 900 hours per year is funded at a prorated amount.

State Share: All.

Local Share: None.

Extent of Participation: All districts.

Cooperative Education Centers

Funding in 1993-94: $3.6 million (less than 1.0% of total state school aid).

Description: The state is divided into 15 educational cooperatives. The cooperatives receive funds to hire core staff and provide basic equipment. The remainder of their budgets is made up by fees paid by school districts for services rendered.

Extent of Participation: 312 districts.

Economic Education

Funding in 1993-94: $0.1 million (less than 1.0% of total state school aid).

Description: Grants are given to school districts on the basis of application for Economic Education.

State Share: All.

Local Share: None.

Extent of Participation: 97 districts.

Restructuring Schools

Funding in 1993-94: $0.25 million (less than 1.0% of total state school aid).

Description: Grants are given to schools who wish to restructure on the basis of application.

State Share: All.

Local Share: None.

Extent of Participation: 21 districts.

Liability Insurance Program

Funding in 1993-94: $0.28 million (less than 1.0% of total state school aid).

Description: A premium for insurance for teacher liability.

State Share: All.

Local Share: None.

Extent of Participation: All districts.

Surplus Commodities

Funding in 1993-94: $0.2 million (less than 1.0% of total state school aid).

Description: State share of Federal Surplus Commodity funding.

State Share: All.

Local Share: None.

Extent of Participation: All districts.

Human Development Center Education Aid

Funding in 1993-94: $0.66 million (less than 1.0% of total state school aid).

Description: Funds cover teacher salaries for certified staff working in the Human Development Centers.

State Share: All.

Local Share: None.

Extent of Participation: 7 Human Development Centers.

Course Content Grants

Funding in 1993-94: $0.23 million (less than 1.0% of total state school aid).

Description: The state pays the salary for the substitute teacher for those who are working on completing curriculum guides in selected districts.

State Share: All.

Local Share: None.

Extent of Participation: 12 districts.

Classroom Management Training

Funding in 1993-94: $0.16 million (less than 1.0% of total state school aid).

Description: Training in Madeline Hunters Program for Effective Teaching for districts, cooperatives, and Human Development Centers.

State Share: All.

Local Share: None.

Extent of Participation: 4 districts, 15 cooperatives.

Reading Program

Funding in 1993-94: $0.8 million (less than 1.0% of total state school aid).

Description: The state pays the salary of reading supervisors who work either in the 15 education cooperatives or for them in serving several school districts.

State Share: All.

Local Share: None.

Extent or Participation: 15 cooperatives.

Math and Science School

Funding in 1993-94: $3 million (less than 1.0% of total state school aid).

Description: Operation of the Math and Science boarding school in Hot Springs for students gifted in this area.

State Share: All.

Local Share: None.

Extent of Participation: No school districts.

Computer-Based Education Opportunities

Funding in 1993-94: $0.5 million (less than 1.0% of total state school aid).

Description: The state pays the operating cost for project IMPAC.

State Share: All.

Local Share: None.

Extent of Participation: All districts.

Computer-Based Education

Funding in 1993-94: $2.2 million (less than 1.0% of total state school aid).

Description: Funds are provided for distribution by project IMPAC. This program provides grants to schools on the basis of application for the purchase of both computer hardware and software.

State Share: All.

Local Share: None.

Extent of Participation: 48 districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Information not provided.

XII. EARLY CHILDHOOD EDUCATION

Better Chance Program

Funding in 1993-94: $10 million (less than 1.0% of total state school aid).

Description: The program known as ABC, Arkansas Better Chance, is offered to at-risk and/or low income three to five year olds. It is to remediate for lack of educational experience.

State Share: All.

Local Share: None.

Extent of Participation: 161 districts.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

Amount carried for schools: $492.5 million

As a result of Amendment 59 of 1980 to the state constitution, three kinds of property were created. These are real, personal, and carrier and utility. Real property was reassessed at the rate of 15 counties per year from 1981 to 1985. Millage was then rolled back to a figure where no taxing authority, including school districts, would receive more than a ten percent increase in tax yield. Personal property yield was frozen at whatever figure it had reached in the year prior to real property reassessment. The yield would remain frozen until such a time when the new real property millage would produce the same or greater yield when applied to the personal property assessment.

Carrier and utility yield was frozen for five years. At that point, the yield from the new real property millage would be calculated and the amount subtracted from the frozen yield and the yearly tax lowered by 20 percent of the difference for the next five years.

At present all districts have equalized their utility and carrier taxes. Most have equalized the real and personal property taxes but some have not and cannot increase the yield from that source.

Property, except that where the freeze still exists, must be assessed at 20 percent of its use value. The Assessment Coordination Division of state government checks the ratio yearly. Counties falling below 18 percent or rising above 22 percent may be penalized by the loss of state aid including school aid. Therefore counties approaching these limits will reassess.

Income Tax

No income tax is permitted to be levied by local school districts.

Other Sources of Local Tax Revenue

Proceeds from a sales tax may be used to calculate local wealth. However the only district using such a tax had it declared illegal by the courts.

Tax Credits and Exemptions

A tax credit on income tax for reimbursement for property tax exists. Property is assessed and taxes paid. Persons over 65 with a family income, including Social Security of under $15,000 may apply for a partial refund or credit on their state income tax form. This may result in a refund or applied to tax liability. The amount of the credit ranges from $250 for less than $7,000 in income to $50 for income from $14,000 to $15,000.

XIV. TAX AND SPENDING LIMITS

Tax Limits

School districts not taxing its property at 22.5 mills will lose add-on weights for vocational education, gifted and talented education, and isolation. There is no limit to the millage a district may charge beyond those of Amendment 59.

Spending Limits

There are no spending limits.

Voter Approval of Budget and Bond Issues

There is required voter approval only for increased millage, be it for bonds or operation.

XV. EARMARKED STATE REVENUE

One half cent of the sales tax is earmarked for the Educational Excellence Trust Fund, which is earmarked for teacher salaries.

XVI. SPECIAL TOPICS

Open transfer between public school districts is permissible if the districts have agreed to such a policy. State aid follows the transferred student.

There is no school choice with private schools and there has been no real attempt to implement a voucher system.

The Better Chance Program allows for participation by private schools that are not church related.

CALIFORNIA

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I. GENERAL BACKGROUND

State

- The current status of California school finance can be traced to three watershed events of the last 20 years:
    1. The *Serrano* v. *Priest* legal challenge to California's school finance system,
    2. Passage of Proposition 13's property tax limitation, and
    3. Voter approval of Proposition 98's minimum funding guarantee for education.
- The primary effect of these three events has been a dramatic shift in the control of California school finance away from local districts and to the state. In 1993-94, California spent just over $28 billion, from all sources, on K-12 education. Of that total about eight percent comes from federal funds, with the remaining 92 percent coming from various sources within the state. Approximately 56 percent of the state share of $26 billion comes directly from state funds, with local property taxes, which are directly controlled by the state, contributing approximately 35 percent. From 1989-90 to 1991-92 the state share of state-local revenue remained fairly constant at approximately 67 percent. However, in 1992-93 it was reduced to 64 percent and, as noted above, was significantly reduced to 56 percent in 1993-94. Projections for 1994-95 indicate a reversal of this downward trend, with the state share rising to 59 percent. This decline is not the result of higher local property taxes, per se, but, as discussed in more detail below, is the result of a legislative decision to shift some of the property taxes collected away from California cities and counties and to the school districts, reducing the share of total revenues coming from the state.

- Total K-12 education funding from all sources for the 1993-94 school year in California amounted to $28.4 billion, or $4,217 for each of the 5.14 million students in the state's public schools. The total funding has increased 84.2 percent over the last 10 years, an increase of $1.28 billion dollars every year on average. The 10 year average in real dollars, however, includes consecutive increases over the first six years, and consecutive declines over the last four years. Adjusted for inflation, the 1993-94 per pupil expenditure level measured in 1984-85 constant dollars is $3,720, or 6.2 percent above the 1984-85 amount of $3,504. As noted above, real expenditures per pupil have declined every year since 1990-91, and are projected to decline again in 1994-95.

- In 1993-94, state general funds provided the largest share of school district revenues, a total of $14.2 billion, or 51 percent of the 28.1 billion available for K-12 schools. Local property tax levies provided an additional $9.3 billion, or 33 percent of the total that year. Other revenues included $558 million in Lottery funds (2%), $2.2 billion from the Federal Government (8%), and $1.8 billion in other local revenues (6%).

- Most of state funds for the public schools come from sales and income taxes. Proposition 98, passed by the voters in 1988, guarantees a minimum state funding base for K-14 schools. K-14 education receives the greater of the proportion of the state guaranteed funding appropriated for education in 1986-87 (known as Test 1) or the same level of combined state aid and local tax dollars as received the prior year, adjusted for statewide ADA growth and an inflation factor equal to the annual percentage change in per capita personal income (known as Test 2). Proposition 111, passed in 1990, added a new test (known as Test 3) which changes the formula for the inflation factor from the per-capita personal income to per-capita state General Fund revenues plus 0.5 percent in years when growth in the state's general fund budget is very small. Under Proposition 111, one time high state tax revenues will not be included automatically into a subsequent increases in the state aid. SB 88, a companion bill to Proposition 111, requires a supplemental allocation to K-14 education from the state, if necessary, to ensure the growth in education revenues is as large as the growth in state revenues on a per-capita basis.

- Since the 1970s, California has not enacted a major replacement of its school finance formula. Rather, the approach has been to make structural changes to the existing system. The antecedents of the current formula were established in 1971 with the passage of Senate Bill 90. This legislation created the revenue limit system that is still in use today. In 1978, in response to Proposition 13, Assembly Bill 8 modified the finance structure, largely by accommodating the loss of local taxing authority, and creating a system funded mostly by the state. In 1988, the voters approved Proposition 98 insuring that approximately 40 percent of the state's general fund budget would be used on K-14 education. In each case, there were substantial changes to the finance system, but in no case was the old system "thrown out" and replaced with a new system.

- Under the property tax system established by Proposition 13, property taxes are constitutionally limited to one percent of assessed value. Assessed value is defined as the assessed value of a property in 1975-76 with inflationary increases limited to no more than two percent a year. All property is reassessed at market value when it is sold or otherwise changes hands. As a result, there is a substantial differential in the property taxes assessed on similar types of property, based solely on the date that property was purchased.

- The state has experienced substantial budget shortfalls in each of the last four fiscal years. As a result, per pupil revenues for K-12 education have remained flat during that time period. The state has funded growth in the number of students, but not provided additional funds to compensate for the effects of inflation. Moreover, in order to insure that the schools receive even this level of funding, the state has had to shift property tax receipts away from cities and counties and transfer them to school districts.

- *Loans and Prepayments.* In order to understand California's 1993-94 funding for K-12 education, it is necessary to trace historical developments in the State Budget Act back to 1990-91. It is also important to understand the process that leads to the actual provision of funds to school agencies. First, the state develops an estimate of the appropriate level of funding for K-12 education. Based on this estimate, funds are appropriated in the annual State Budget Act, which becomes effective at the beginning of each fiscal year (July 1). Revisions of the original estimate occur as the state calculates how much available revenue it actually has received. Finally, the state takes action in response to any discrepancies between appropriated amounts and actual revenues. The shortcomings of Proposition 98 have become particularly clear during the last four years of economic recession in California. Since 1990-91, revenues have consistently fallen short of original estimates, and each year the state has responded in one of two ways: appropriations above the Proposition 98 minimum funding level have been regarded either as loans, or as prepayments of future entitlements.

- In fiscal year 1990-91, state tax revenues fell short of expectations, leading to a Test 3 determination of Proposition 98 minimum funding. As a result, the Proposition 98 minimum funding level was revised downward to $21.2 billion, a figure that was $1.3 billion less than the $22.5 billion appropriated for K-14 education in the 1990-91 Budget Act. The state responded by providing funding at the appropriated $22.5 billion level, viewing the excess ($1.3 billion) as a loan, and counting the loan repayment as an appropriation toward the Proposition 98 minimum funding level for the subsequent year, 1991-92. However, in 1991-92, state tax revenues again fell short of expectations. Original estimates under Test 2 produced an appropriation of Proposition 98 funding at $23.3 billion (including the previous year's loan repayment), but the revenue shortfall again led to a downward revision of the minimum guarantee, this time by $1.1 billion. Again, the state funded K-14 education at the appropriated $23.3 billion level, and treated the difference as a loan to be repaid out of the subsequent year's appropriation.

- In fiscal year 1992-93, the Budget Act appropriated $23.9 billion (including previous year loan repayments), but tax revenues fell so far short of original estimates that the state provided a loan of $200 million, and additional funding of $1 billion as a prepayment against future appropriations. Fiscal year 1993-94 produced a Budget Act appropriation of $23.9 billion (including previous year loan repayments), but for a fourth consecutive year tax revenues fell short. The state funded K-14 education at the appropriated level, considering the $800 million difference between revenues and funding as another prepayment against future appropriations. No interest is charged on the prepayments, but as soon as Proposition 98 funding in future years is greater than the level in a previous year, plus statewide ADA growth, half of the excess must be used to begin loan repayment. As of 1993-94, an initial court decision relieving school agencies of fiscal responsibility for these loans and prepayments has been appealed by the state.

- *Property Tax Shift.* Proposition 13, with its maximum one percent general purpose tax rate, resulted in a shift of state distribution of property tax revenues between local governments and school agencies. Governments and school districts that lost property tax income were provided bail-out revenues from the state. AB 8, passed in 1979, permanently shifted property taxes away from schools to local governments, reducing (but not entirely eliminating) the need for state bail-out funds. Any loss of property tax revenue to schools was compensated with additional state aid. In 1992-93, due to the state's severe economic recession, property taxes were shifted back to school agencies. These funds were used to supplant existing state aid for schools, and so did not result in any increase in school funding. In 1992-93, the property tax shift to K-12 education was $1.4 billion ($300 million one-time only), and in 1993-94 was an additional $2.6 billion.

Local

- The state has 1,002 local school districts. This includes 302 unified, 593 elementary, and 107 high school districts. In addition, each of the 58 counties has an office of education.
- All 1,002 districts are fiscally dependent. General operating budgets do not require voter approval, but are subject to review and approval by the County Superintendent's office.
- The major source of local revenue for school districts is the property tax. Local property taxes, limited to one percent of assessed value by Proposition 13, are distributed within each county on the basis of each taxing jurisdiction's percentage of total county property tax collections the year before Proposition 13 passed.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$14,923 million
Grants in aid (includes lottery)	$14,323 million	
Teacher retirement contributions	600 million	
FICA	0	
Total Local School Revenue		$10,830 million
Property tax revenue	9,030 million	
Other local source tax revenue	1,800 million	
Local source non-tax revenue (lottery)		
Total Combined State and Local School Revenue		$25,753 million
State Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

General-Education Revenue Limits

Funding in 1993-94: $16,700 million ($3,210 per ADA).

Source	*Amount*
School District Revenue Limit Funding	
• State appropriation	$7,222.9 million (48.4% of total aid).
• Local/other revenues	8,235.6 million
• Loan	608.7 million
• Supplemental grant roll-in	178.9 million
County Office Revenue Limit Funding	
• State appropriations	86.4 million
• Local revenues	233.0 million
Total	$16,700 million

Nature of Program: Foundation Program (revenue limit), with a flat grant base (basic aid).

Allocation Units: Pupils. Average Daily Attendance (ADA). ADA is determined based on a daily count of pupils in attendance and pupils with excused absences. Pupils who do not meet either of these criteria are not counted toward a district's ADA. Thus, if a district offers a 180 day school year, its total ADA is equal to the sum of total number of pupils present each day, plus the total number absent each day, divided by 180. Official ADA counts for apportionment of state aid purposes are reported to the state three times a year — P1 in October, P2 in April, and final ADA after the school year ends.

Local Fiscal Capacity: District revenue limits are based on historic expenditure patterns with increases inversely related to the level of the revenue limit. This has produced a gradual equalization of general revenue per ADA. A district's revenue limit is funded through property tax revenues and state aid to make up the difference between the revenue limit and local taxes. State aid is composed of a constitutionally mandated flat grant of $120 per ADA, and additional general funds needed to fully fund the revenue limit. Districts with local property taxes plus basic aid grants totaling more than their revenue limit are allowed to keep the excess funds. There are approximately 50 such "Basic Aid" districts in the state. Revenue limits vary by type and size of district. The following table shows the average revenue limit for each of the six categories of school districts in 1993-94. Because revenue limits were subject to an 8.14 percent deficit factor (explained in more detail below), both the statutory revenue limit and the deficited revenue limit are presented. School districts actually received the lower or deficited figure in 1993-94.

Average School District Revenue Limits by
Type and Size of District: 1993-94

District Type	*District Size*	*ADA*	*Statutory Revenue Limit ($)*	*Deficited Revenue Limit ($)*
Elementary	Small	up to 100	3,987	3,662
	Large	from 101	3,212	2,951
High School	Small	up to 300	4,404	4,046
	Large	from 301	3,943	3,622
Unified	Small	up to 1,500	3,630	3,335
	Large	from 1,500	3,407	3,130

How Formula Operates: A school district's *total* revenue limit is determined through a process which consists of several components. The value of each component is determined through a complicated set of formulas. The components include a *base* revenue limit, ADA, a *general purpose* revenue limit, and various other adjustments. The following narrative describes how the value of each component is determined.

Base Revenue Limit. The base revenue limit is determined according to the previous year's base revenue limit prior to any deficit, plus an inflation factor based on a statutory cost-of-living adjustment (COLA). This COLA is the annual percentage change in the "Implicit Price Deflator for State and Local States Department of Commerce for the 12-month period ending in the third quarter of the prior fiscal year" (Education Code Section 42238.1(b)). The calculated COLA is applied to the average revenue limit for each type of district and converted to a dollar figure that is then granted to each school district of that type in the state. For the purposes of this calculation, large and small districts of each type are lumped together. As a result, high revenue limit districts receive a smaller percentage increase in their revenue limit than do low spending school districts, thus furthering equalization of spending each year.

Since 1990-91, the State Budget Act has intentionally underfunded the statutory COLA, resulting in a deficit factor that has continued to grow annually. For example, in 1990-91 the calculated statutory COLA was 4.76 percent, but it was only funded at 3.52 percent, creating a revenue limit deficit of 1.18 percent. As a result of compounding, the 1991-92 revenue limit deficit grew to 5.14 percent (with a COLA of 4.69 percent), and in 1992-93 was (estimated at) 5.77 percent (with a COLA of 2.74 percent). A number of factors have contributed to this growing revenue limit deficit. First, state aid appropriations are fixed, but discrepancies arise between predicted and actual figures for growth in statewide ADA and property tax revenues. Second, the actual deficit factor is not finalized until 12 months *after* the close of the fiscal year. As a result of these factors, individual school districts have assumed much of the financial risk of fluctuations in revenue limit funding.

The deficit factor is applied to a district's total adjusted revenue limit, and not just the state aid share of the revenue limit. The calculated COLA for 1993-94 was 1.92 percent, but new legislation (Education Code Section 42238.14) has fixed the revenue deficit factor at 8.14 percent. Consequently, the financial risk of annual fluctuations in revenue has been shifted to the state.

ADA. Determine the district ADA that is to be multiplied by the base revenue limit. See allocation units (above) for calculating the ADA. In 1993, the State Legislature ended years of debate over period-by-period attendance. Rather than require districts to keep track of students on a period by period basis, students in regular and special education programs who are enrolled for at least a minimum day, and who attend any part of the day, are considered present for the entire day. Time requirements for school days may be averaged as follows:

Grade	*The school day may contain as few as...*	*But must average..*	*Over ____ consecutive school days.*
Kindergarten	60 minutes	180 minutes	10
Grades 1-3	170 minutes	230 minutes	10
Grades 4-8 (in an elementary school)	180 minutes	240 minutes	10
Jr / Sr High	180 minutes	240 minutes	2

In determining non-growth ADA, a district may count the greater of current or prior year Second Principal ADA. All districts must determine growth ADA over the 1982-83 base year, which may be funded at a maximum of 105 percent of the statewide average base revenue limit. Beginning in 1993-94, the ADA for (1) adult ADA, (2) independent study adult ADA, and (3) concurrently enrolled adult ADA is no longer funded as K-12 ADA, and will now be funded as a *single* adult revenue limit per ADA.

Also starting in 1993-94, districts and county offices have the option of converting to an "actual" attendance accounting system. Prior to 1993-94 all districts have used a negative accounting system where all students are considered "present" unless it is determined that a student is absent. The option of converting to an actual attendance accounting system provides an incentive for schools to encourage actual school attendance. Instead of being funded for excused absences, school agencies switching to the actual attendance system will receive a *permanent* increase to their base revenue limit. By reducing the number of excused absences in favor of actual attendance, agencies choosing this option will receive more funding.

General Purpose Revenue Limit. This is the portion of the total revenue limit that is exclusive of special needs adjustments and summer school funding. It has two components: the total base revenue limit for growth and non-growth ADA, and the "necessary small school" adjustments.

The total base revenue limits are computed for both non-growth and growth ADA, and then summed. For *non-growth* ADA, the greater of current or prior year ADA is multiplied by the base revenue limit. The total revenue limit for *growth* ADA is equal to a district's growth ADA (determined according to the base year 1982-83) times the lesser of (1) a district's own base revenue limit, or (2) 105 percent of the 1993-94 statewide average base revenue limit.

Generally, schools that are geographically isolated and have low ADA are considered "necessary," although the exact criteria for such a determination are very detailed and beyond the scope of this document. In order to qualify for necessary small school adjustments, districts must meet *all* of the following criteria: (1) under 2,501 ADA, (2) have an elementary school with less than 100 ADA and/or a high school with under 300 ADA, and (3) fulfill the education code definition of a necessary small school. Use of the necessary small school formula is optional.

Other Adjustments. There are both positive and negative adjustments to the total revenue limit. Positive adjustments include:

1. *Unemployment Insurance.* The state reimburses districts for mandated increases in unemployment insurance costs over the base year 1975-76. The adjustment is equal to the 1993-94 costs realized in all funds (not just the General Fund), computed at the end of the year to represent actual expenditures, minus the 1975-76 costs.
2. *Meals for Needy Pupils.* This adjustment is only for those districts that levied the "meals for needy pupils permissive override tax" in 1977-78, and distribution of the revenue that it generates for the district is not restricted. The total adjustment in 1993-94 equals the 1992-93 amount per meal, increased by the 1.92 percent COLA, and multiplied by the number of free and reduced price meals served in 1993-94.
3. *Continuation High Schools.* This adjustment, intended to offset the operating costs of a continuation high school, is based on first year costs of operation. It is only for districts that established a new continuation high school in 1979-80 or thereafter, or for any unified district that became effective on or after June 30, 1978, with a high school having less than 300 ADA.

Negative adjustments include:

4. *PERS Recapture.* Since 1981-82 the state has required that the total revenue limit apportionment be reduced by any Public Employees' Retirement System (PERS) savings that a district enjoys from reductions in the employer contribution rate. In 1993-94 districts contributed to PERS at the rate of 7.376 percent, significantly lower than the historic 13.02 percent rate established in 1981-82. The dollar amount reduction of the PERS adjustment is reported as a district expenditure, not a reduction in revenue.
5. *Class Size Penalties.* Various sections of the education codes establish maximum class size standards for grades K-8, with corresponding reductions in a district's funded ADA for exceeding those standards. Under some circumstances the State Board of Education grants waivers for excessive class sizes.

Additional adjustments include:

6. *County-Educated Students.* County offices of education are service agencies for all districts and provide instructional supervision, health, pupil, personnel, curriculum, special education, and fiscal services to the districts in their county. California has 58 counties, each with its own office of education. County-educated ADA revenues are determined as part of a district's total deficited revenue limit, and then transferred directly to county offices through the apportionment process.
7. *Summer School Programs.* These adjustments are not subject to the K-12 revenue limit deficit because the Annual Budget Act funds them through a separate appropriation. The description "summer" school is a bit of a misnomer, since it applies to programs held during the traditional summer break, as well as inter-session programs held by year-round schools. One optional program for districts is the "summer school core program," which was funded in 1993-94 at $2.30 per pupil hour for all districts with 500 or more pupils. Alternative formulas apply for schools with less than 500 pupils and providing either more than, or less than, 1,500 hours of instruction. There are also mandated summer school programs, "Saturday summer school" programs, and a "tutoring and homework assistance" program, each of which has a unique funding formula within the Budget Act appropriation for summer school programs.

State Share: The state share of a district's revenue limit is equal to the total adjusted (deficited) revenue limit minus local tax receipts. The California Constitution requires that in no event shall state aid be less than the constitutionally guaranteed basic aid of $120 per ADA, or $2,400 per district, whichever is greater. Since state aid is equal to the difference between the total adjusted revenue limit and local tax collections, increases in property tax revenue result in dollar for dollar reductions in state aid. In 1993-94, state general funds provided the largest share of all school district revenues, a total of $14.2 billion (51%) of the $27.9 billion total K-12 education expenditure in the state. Of that $14.2 billion, approximately $7.3 billion (51%) came in the form of state appropriations toward the revenue limit, with loans and supplemental grant roll-ins accounting for about $800 million (6%).

Basic aid districts. Because of high-value property located within their boundaries, some districts receive large amounts of local tax revenues that, when combined with state basic aid, exceed the local revenue limit. These "basic aid districts" receive only the minimum basic aid and do not receive any property taxes shifted from local government agencies.

Local Share: Under Proposition 13, increases in *ad valorem* property taxes are constitutionally prohibited. As a result, local school districts are limited in their ability to produce discretionary revenues. Local parcel or square footage taxes require a daunting two-thirds vote, and the recently legislated authorization for counties to secure a one-quarter or one-half percent sales tax for K-14 education through simple majority voter approval has been legally challenged, and has produced mixed results.

The main source of local revenue is the district's share of the mandatory ten mill (1%) property tax levied on both the secured and unsecured tax rolls. Property taxes are levied by each county and distributed to each school agency in a county in proportion to their share of the total property tax collections in the county prior to the passage of Proposition 13 in 1978. The state reimburses districts for the loss in local property tax collections resulting from the $7,000 (per home, applied to assessed value) homestead tax exemption. Other sources of local income include supplemental secured roll taxes, timber yield and aircraft taxes, prior year's (delinquent) taxes and impounds, collected property tax penalties, trailer coach fees, and 50 percent of a district's miscellaneous funds (payments received in lieu of taxes and revenues from royalties or bonuses). In 1993-94, local property tax levies provided $8.8 billion and other local revenues provided $2.3 billion, representing 32 percent and eight percent, respectively, of the total K-12 expenditure of $27.9 billion for the state. Of the total $11.1 billion local revenue, approximately $8.5 billion (77%) contributed to funding the revenue limit.

Changes for 1993-94. Two important changes have occurred regarding local income. First, school district obligations to pay property tax administration fees on shifted property taxes, an issue first legally challenged by school districts in 1990-91, have been repealed effective 1993-94. Second, new or amended redevelopment agencies must allocate some of their property tax revenues to school districts. This amount, minus that used by a district for land, facilities, construction, reconstruction, remodeling, or deferred maintenance, is treated as local revenue, 43.9 percent of which counts as property taxes that offset state aid.

Weighting Procedures: See "How Formula Operates" above.

Adjustments for Special Factors: See "How Formula Operates" above.

Aid Distribution Schedule: Districts receive money from the state each month based on four principal apportionment payments.

1. Advance Apportionment. Calculated in July, it determines monthly payments for July through January. It is based on the prior year P-2 (2nd official count day) count of ADA, and is adjusted only for changes in the state's total appropriation and any changes in the statutory formulas.

2. First Principal Apportionment. Certified by February 20th, it determines monthly payments for February through May. It is based on actual P-1 (1st official count day) ADA, and estimates of taxes and other data.

3. Second Principal Apportionment. Certified by June 25th, based on actual P-2 ADA and updated estimates of taxes and other data. It determines payment for June.

4. Annual Recalculation. Certified in February of the following year along with the P-1 apportionment. It determines the prior year correction. It is based on all actual data. Corrections can be made for up to three years.

At each apportionment, the state estimates each district's total apportionment and provides monthly payments on the basis of the following schedule:

July	6%
August	12%
September	8%
October	8%
November	8%
December	8%
January	8%
February	2/6 of recalculated balance due
March	1/6 of recalculated balance due
April	1/6 of recalculated balance due
May	1/6 of recalculated balance due

No payments are made to districts in June of each year

Property taxes in California are due on December 10 and April 10 of each year. Fifty percent of the property tax bill is due each time. Payments made to county treasurers are distributed immediately to local jurisdictions.

Districts Off Formula: Because of the constitutional requirement that all districts receive a basic aid grant of $120 per ADA, it is possible that the combined total of local property tax collections and the basic aid grant will exceed a district's revenue limit. In these instances, there is not a state recapture provision, and the district is allowed to keep the funds. The exact number of districts in this category varies from year to year depending on local tax collections. It is estimated that state aid to these districts amounts to less than $1 million, but total local property tax collections in excess of district revenue limits may be as high as $50 million, representing a substantial source of revenue to the state if those funds could be recaptured.

III. TRANSPORTATION

(Education Code 41850)

Funding in 1993-94: $339.3 million (2.3% of total state school aid).
(excludes PVEA funding)

Program	*State Funding ($millions)*
• Mega-item allocation (includes home-to-school and special education)	$336.0
• Small Agency Bus Replacement	3.3
• PVEA Bus Replacement	21.0 (estimated)
Total	$360.3

Description: State funding for two transportation categories, special education and home-to-school, through "mega-item" funding of 38 categorical programs. State funding represents about one-half of all transportation expenses, with local school agencies making up the difference.

State Share: Historically, state appropriations for transportation funding have not kept pace with transportation costs in school districts. This is the result of two factors: a transportation aid formula that has no adjustment for growth in pupils transported, and low, zero, or even negative (1992-93 and 1993-94) COLA adjustments for most years since 1983-84. Consequently, state aid currently funds only about half of the statewide total for transportation costs. There is substantial evidence that while state funding only pays for 50 percent of transportation costs on average, the proportion of state reimbursement varies dramatically across districts.

Beginning in 1992-93, transportation was funded through the predominantly categorical program "mega-item," and split into two separate allocation categories: one for a narrowly defined category of special education (severely disabled and orthopedically impaired), and the other for all remaining home-to-school transportation. This split (AB 876) occurred with the belief among educators that separation of high-cost mandated transportation from traditional home-to-school services would lead to higher overall transportation funding. But because state lawmakers tend to view transportation as a discretionary local service, there have been no improvements in funding. A district's transportation aid is still determined on the basis of its aid the previous year, plus COLA adjustments, with 1991-92 acting as the base year for each district to assess how entitlements in each of the two categories would be determined.

Bus Replacement. There are two state-funded bus replacement programs. The first is for small education agencies with less that 2,501 ADA. Funds are apportioned based on vehicle age, mileage, type, and condition, with priority given to replacement of existing buses that fail to meet 1977 federal safety standards. The second is funded by the Petroleum Violation Escrow Account (PVEA), which consists of funds paid to the federal government by oil companies for price control violations in the 1970s. (This is still, however, a state funded program as funds were apportioned to the state by the federal government.) Buses replaced through PVEA must have been manufactured prior to April 7, 1977, and the replacement buses must represent environmentally sensitive technology (use of methanol, particulant traps, computerized fuel injections systems, etc.).

Transportation Fees. In a March 1992 decision, the California Supreme Court ruled that home-to-school transportation fees do not violate the state constitution. There are two limitations on these fees. First, they cannot exceed the statewide average non-subsidized cost for public transit systems, which in 1993-94 was $3.98 per person per daily round trip. Therefore, for a typical school year of 180 days, $716 would be the maximum amount a district could charge. Second, a district cannot use transportation as a profit-making enterprise. Also, there are fee waivers available for pupils of parents or guardians who are indigent, and for certain classifications of special education students.

Local Share: Transportation expenditures that exceed state aid must be financed out of school district general operating funds. This encroachment amounted to at least $338 million in 1991-92 (more recent figures are not yet available).

Extent of Participation: A total of 921 local school districts and 49 counties receive transportation funding from the state.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Leroy F. Greene Lease-Purchase Law of 1976

(Education Code, Chapter 22, Part 10)

Funding in 1993-94: $822 million (5.5% of total state school aid).
A detailed breakdown by program is not available.

Description: California has operated a program to help school districts finance school construction since the late 1940s. The program used state general obligation bonds to pay for the construction of schools. These facilities were then leased to local school districts for $1 a year for 40 years. After 40 years, the school facility became the property of the district. Prior to passage of Proposition 13, this program was used as a last resort by school districts. However, Proposition 13's elimination of all *ad valorem* taxes, made reliance on the state more critical. Even since 1986 when local taxing districts were granted the authority to levy property taxes for general obligation bonds (Proposition 49), the state has been the largest source of funds for new school construction. Local bond measures require a two-thirds majority vote for approval, while state bonds can be passed with a simple majority.

In 1990, California voters approved a total of $1.6 billion in general obligation bonds to support school construction. This followed approval of a similar $1.6 billion in bonds in 1988. In 1992, the state's voters approved $2.8 billion in bonds for K-12 construction. All of the proceeds from these bonds had been appropriated by the end of the 1993-94 fiscal year. A general obligation bond measure of $1 billion was defeated by 4/10ths of one percent in June 1994, and the State Assembly fell three votes short of putting a $2 billion bond measure on the November 1994 ballot. At the end of 1994, there was no more money to distribute for school construction despite a backlog of some $ 6 billion dollars. The next time a general obligation bond measure can be submitted to the voters is in June of 1996.

The Mello-Roos Community Facility Act of 1982 (Ed. Code, Sections 53311 et seq.) authorizes school districts to establish Community Facility Districts, within which bonded indebtedness may be incurred and a property tax levied. These funds may be used for building new schools or to modernize existing school facilities. The principal advantage to a Mello-Roos District is that it does not have to encompass the entire school district. Since the

Community Facility District can be formed to include only the area that would benefit from the planned facility, there would seem to be a greater likelihood of garnering the two-thirds majority needed for approval of the bond measure. Since 1983, 30 school districts have held Mello-Roos elections. Nineteen (63.3%) of those were successful, accounting for over $1.0 billion in school construction funds for the seventeen districts involved. Just over $370 million in Mello-Roos bond measures were rejected in 11 other district elections during the same period.

In 1978, SB 201 (Government Code 65970) authorized the levying of fees on developers of new homes for school projects. This measure was part of the response to Proposition 13's ban on *ad valorem* property taxes. In the early 1980s, the incidence of these fees, levied by counties and cities as well as school districts, began to increase prompting protests from developers. In 1986, the Legislature passed AB 2926, which allowed school districts to directly levy fees on new homes as well as on commercial and industrial projects. In exchange, school districts were prohibited from levying most other kinds of fees. The fees were capped at a single state-wide rate, which today amounts to $1.72 per square foot for residential projects and $0.28 per square foot for commercial and industrial projects. In addition, these developer fees must be used for school construction or modernization projects, and cannot be used for school operations.

An important element of developer fees is the "match" requirement for districts receiving building funds from the State School Building Lease-Purchase Fund. The match requires districts to contribute the amount they could receive through developer fees as their share of the school construction costs for approved projects. The procedure for determining when a district is in "the match" is complex. Generally, once a district's application has received Phase I approval, the district is "in the match" and must rebate to the state an amount equal to the amount that could have been collected if the maximum allowable developer fees had been imposed on all projects in the district. This match condition lasts until the district receives its certificate of occupancy for the school facility. There are some exceptions to the match requirement. For example, with approval from the Office of Local Assistance, a district can deduct from the match requirement certain costs of interim portable classroom facilities while they are waiting for approval and construction of a school. The match also may be temporally suspended if the district has fully qualified to move to the next phase but the state runs out of bond funds and cannot meet its obligations. Districts that do not collect developer fees, or that impose fees lower than the maximum allowed by law, must still provide the full match from local funds.

Districts that don't participate in the State School Facility Lease-Purchase program may use all of the developer funds they receive for their own construction needs. A number of large districts have opted to construct schools solely with local resources, and as a result, keep all of their developer fees for local construction. A number of other districts use a variety of methods to fund school construction, financing some projects through the State School Building Lease-Purchase Program and others through local sources. Unfortunately, there is no accurate data on the number of schools that are built in California without state assistance, although officials estimate that there are some 200 districts currently planning or constructing school facilities who are not part of the State School Building Lease-Purchase Program. The Office of Local Assistance is in the process of conducting a state-wide accounting of all public school facilities.

Emergency Temporary Classroom Program. This program allocates funds for the acquisition, installation, and relocation of portable classroom facilities, including furnishings, to be rented to districts with overcrowded schools. There were approximately 6,100 portable classroom available for rent through the state in 1990-91.

Deferred Maintenance Program. This program provides matching assistance to local school districts for deferred maintenance. Districts are eligible for matching funds up to .5 percent of their general fund budget for these programs.

Year-Round School Incentives. School districts that increase their enrollment capacity through the use of year-round education are eligible for both one-time implementation grants and annual operating grants. Under the operating grant program, school districts that accommodate through the use of year-round operations additional enrollment equal to at least five percent of each applicant school's capacity (using a traditional, nine-month calendar) are eligible to receive incentive funding. The program is intended to "share" with such districts between 50 percent and 90 percent (depending upon the percentage of "excess capacity" accommodated) of the state's avoided costs from not building a new school facility, based on a "statewide average" cost of land, construction, and financing. In exchange for receiving funding, school districts must withdraw any requests for state school facilities aid to build new facilities for the number of pupils accommodated through year-round operations and claimed for payment.

Under the implementation grant program, school districts may receive one-time grants of $25 per pupil (not to exceed $100,000 per school site) to help defray the costs of school-site conversion to year-round education.

To be eligible for either type of grant under the Chapter 1261 program, each school district must demonstrate that (1) there is "substantial overcrowding" in the school district or its high school attendance areas, (2) the district will use the grants to implement or operate year-round education, and (3) the district is eligible for state assistance to build new schools under the Lease-Purchase program.

V. TEACHER RETIREMENT

Funding in 1993-94: $690 million (4.6% of total state school aid) for State Teachers Retirement System (STRS) only.

Description: The retirement program for certificated staff is the State Teachers' Retirement System (STRS). Local educators contribute approximately 8.33 percent of their salary to STRS, and local districts contribute an additional 8.4 percent. Classified employees participate in the California Public Employee's Retirement System (PERS), funded by employee and employer contributions of 7.5 percent of salary each. Both PERS and STRS members do not participate in FICA.

The 1994 Budget Act provides for a reduction in PERS rates, resulting in $100 million statewide cost reduction to school employers.

VI. SPECIAL EDUCATION

Funding in 1993-94: $1,414.4 (9.5% of total state school aid).
Total Special Education funding is $1,522.3 million, which includes $60.4 million additional revenue from local property taxes and a $48 million separate appropriation.

In 1993-94, special education was the only categorical program to receive growth funding and be held exempt from a $36.7 million reduction in mega-item funding. Further, it also received a $16.4 million augmentation to assist reduction of the special education deficit. These budgetary considerations reflect the state legislature's recognition that, being mandated, special education must be treated differently than other categorical programs.

In response to growth in the number of special education students, the 1994 State Budget Act (for fiscal year 1994-95) removes special education from the mega-item and appropriates funds separately. Special education was one of only three categorical programs receiving significant funding increases, receiving the largest dollar amount increase of the three with $53.4 million (a 3.3% increase).

Description: The Master Plan for Special Education, implemented statewide in 1980-81, is the state's comprehensive program for ensuring that all children with exceptional needs receive, free of charge, the education and services necessary to meet their unique needs (SB 1870). Student participation in the program requires initial assessment, development of an individualized education program (IEP), and placement in the least restrictive environment. Individual school districts or groups of school districts, often in conjunction with county educational agencies, administer special education services through the formation of regional organizations called Special Educational Local Plan Areas (SELPA). Governance of the SELPA is left up to the participants, enhancing flexibility and local control.

Funding for special education is largely determined by four entitlements that are based on the base year 1979-80. Funding for teachers and aides, the major component of the Instructional Program Entitlement, is for instructional personnel service (IPS) units and is equal to the unit rate for each instructional unit times the number of funded units. The remaining three entitlements are the Administrative Unit Entitlement, the County Longer Day and Longer Year Entitlement, and the Non-RISK Pre-School and Low Incidence Infant Entitlement (new for 1993-94, and funded from federal sources). As noted in Section III, transportation for special education pupils is funded separately.

Due to lack of adequate legislative foresight regarding the likely costs of its funding formulas in 1980-81, the Master Plan initially generated entitlements totaling $123 million higher than anticipated. This led to a large deficit in the state aid appropriation in its first year of implementation. Rather than provide additional funding, the state responded by cutting entitlements, yet still did not fully fund the entitlements, consequently placing additional financial burden on local agencies to make up the difference. This established the local "maintenance of effort" that is still required of local agencies.

Special education funding has never been equalized, and continues to provide funding based on each agency's 1979-80 costs, adjusted for inflation and program growth units. In other words, it fails to consider *actual* expenditures for agencies in any give year, leading to tremendous variations in funding for the same services in different districts. Further, underfunded COLAs in 1993-94 will create a 17.5 percent deficit in the state aid share of the total entitlement figure, a result of special education program costs exceeding revenues by over $700 million.

Changes for 1993-94. When a special education student's needs cannot be met within the public school system, students may be referred to attend classes in a non-public school (NPS). A NPS is a private school certified by the State Department of Education to serve students with disabilities. NPS entitlements provide funding equal to 70 percent of the excess cost (above the revenue limit). From 1983-84 to 1991-92, NPS costs grew 311 percent, while enrollment grew 130 percent. In 1991-92 nearly 8,000 students were served with an average annual cost of $23,850 per student. Due to skyrocketing costs, and a funding system that creates financial cost-saving incentives for public schools to refer students to NPS's, the state implemented a series of reforms in 1993-94. Among these reforms is a statewide total cap of $162.9 million on reimbursement for NPS tuition costs, which is effective after application of the special education deficit..

In response to 1986 federal legislation (PL 99-457), in 1991-92 the state expanded an existing special education program to include non-RIS (Require Intensive special education and Services) students from age three to school age. As a result, the state receives about $30 million in additional federal funding each year. Further, in 1993 the state enacted the California Early Intervention Services Act (SB 1085), mandating local educational agencies to provide special education services to solely low incidence infants. As mentioned earlier, this program is supported entirely by direct federal funds.

State Share: The amount of state aid is equal to the sum of the various program entitlements minus (1) applicable federal PL 94-142 local assistance revenue, (2) revenue limits from Master Plan ADA, (3) a fixed Local General Fund Contribution (for school districts, sometimes referred to as "maintenance of effort"), and (4) county special education property taxes (for county offices only).

Local Share: The Local General Fund Contribution for districts is the lesser of (1) the base year (1979-80) Local General Fund contribution, or (2) the 1979-80 amount adjusted for the change in total K-12 ADA since 1979-80. As the costs of program delivery have continued to grow over and above total revenues for special education, encroachment upon local unrestricted general fund moneys spent in support of special education has grown tremendously. This required maintenance of effort for special education costs, funded from district general purpose revenues, is referred to as "computed" encroachment. It varies among districts, depending upon the extent to which special education services were offered in Master Plan base year of 1979-80. In contrast, "real" encroachment refers to the difference between the cost of special education services and available special education funding. It varies depending on districts' decisions on salaries and wages, and whether there are more special education students enrolled than are funded by the state. Thus, in 1993-92 the statewide "computed" encroachment estimate of $168 million represents about 22 percent of the statewide "real" encroachment estimate of $770 million.

Extent of Participation: All districts either receive special education aid directly or participate in a SELPA and thus receive aid.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: $321.6 million (2.2% of total state school aid).

Description: Compensatory education programs are funded through the General Fund and through federal funds. The state General Fund supports the following programs:

• Economic Impact Aid (EIA)	$297.8 million

Miller-Unruh Reading Program	21.9 million
Native American Indian Education Program	0.4 million
American Indian Education Centers	1.5 million

Federal funds provide resources through the Education Consolidation and Improvement Act (ECIA) Chapter 1, and federal refugee and immigrant programs. EIA provides funds to school districts with high concentrations of children who are poor, educationally disadvantaged, or have limited proficiency in English. These funds are used to (1) supplement educational services, particularly in basic skills, for children who have difficulty in reading, language development, or mathematics, and (2) provide bilingual education programs (EIA-LEP) for children who are classified as limited English-proficient (LEP).

State Share: Funding for the EIA program is distributed according to two formulas. The primary formula, which is used by SDE to allocate approximately 91 percent of the EIA funds, involves a complex multi-step process that (1) determines statewide and district share of "gross need" and (2) allocates available resources based (a) on maintaining at least 85 percent of each district's prior-year funding level and (b) using any remaining funds to address "unmet needs." This primary EIA funding formula is based on the sum of the number of children ages 5-17 who are from families receiving Aid to Families with Dependent children (AFDC) and the number of pupils with limited English proficiency. Adjustments for enrollment growth are based on actual growth in these populations between the past year and the current year.

Local Share: Districts are not required to contribute to compensatory education programs. Not all districts receive compensatory education aid.

VIII. GIFTED AND TALENTED EDUCATION (GATE)

Funding in 1993-94: $31.5 million (less than 1.0% of total state school aid).

Description: (Education Code 52200 to 52213, 62000.11, 62007; AB 474).
California public elementary and secondary schools provide unique opportunities for Gifted and Talented students who are identified as possessing demonstrated or potential abilities that give evidence of high performance capability. The legislature requires that programs include (1) differentiated opportunities for learning commensurate with the gifted and talented pupil's particular abilities and talents, (2) alternative learning environments in which gifted and talented pupils can acquire skills and understanding at advanced ideological and creative levels commensurate with their potentials, (3) elements that help gifted and talented pupils develop sensitivity and responsibility to others, (4) elements that help to develop a commitment in gifted and talented pupils to constructive ethical standards, (5) elements that assist gifted and talented pupils to develop self-generating problem-solving abilities to expand each pupil's awareness of choices for satisfying contributions in his or her environment, and (6) elements that help gifted and talented pupils develop realistic, healthy self-concepts.

State Share:	*Number of GATE students*	*State Aid/year*
	1-10	$161 per pupil
	11-25	$147 per pupil
	26-50	$125 per pupil
	>50	$6.81 x District ADA

Local Share: Local districts are responsible for costs that exceed the state reimbursement if they incur them.

Extent of Participation: In 1993-94, a total of 314,638 K-12 students participated in GATE in 700 school districts.

IX. BILINGUAL EDUCATION

See Section VII — Compensatory Education.

X. OTHER CATEGORICAL PROGRAMS

Although all districts are eligible for the programs described in this section, they do not all participate either because they do not qualify, or they choose not to participate.

School Improvement Program (SIP)

Funding in 1990-91: $321.2 million (2.2% of total state school aid).

Description: The School Improvement Program provides assistance to schools for locally determined improvement projects. School sites must submit a plan to the state indicating what they plan to do with the funds and how they will be used. Each school must have a site advisory council to help in the planning. This council must include parents, teachers, and the principal. Funds are distributed to schools on the basis of their applications and available funds, although once a school receives the funds, the grant becomes an annual occurrence. Most schools in the state are currently participating in the program.

Instructional Materials

Funding in 1993-94: $131.2 million (less than 1.0% of total state school aid).

Description: This program provides support for the purchase of instructional materials for grades K-12. Instructional materials grants are distributed on the basis of district ADA.

Mentor Teacher Program

Funding in 1993-94: $67.9 million (less than 1.0% of total state school aid).

Description: The mentor teacher program was established by SB 813 as part of an effort to upgrade the teaching profession. The measure authorizes experienced teachers with exemplary teaching ability to serve as "mentors" to other teachers, particularly new teachers, and provides for each mentor to receive a stipend of approximately $5,845 annually (adjusted for inflation) for performing this additional work. In addition, a stipend of $292 per mentor teacher is provided to school districts to provide support including travel funds, substitute teacher time and other support functions.

Extent of Participation: In 1993-94, there were a total of 11,609 mentor teachers. 1,059 of the 1,060 school districts and county offices of education participated in the program in 1993-94.

Vocational Education Programs

Funding in 1993-94: $244.4 million (1.6% of total state school aid).

Description: Vocational programs include Regional Occupational Centers/Programs (ROC/P), school-based programs, agricultural education, student organizations, and special-purpose programs, such as Partnership academies and JTPA matching programs.

School Desegregation Programs

Funding in 1993-94: $503.3 million (3.4% of total state school aid),
420.3 million for court-ordered desegregation, and
83.0 million for voluntary desegregation.

Description: State reimbursement of school desegregation costs is not required by the California Constitution. However, under the provisions of current law, the state reimburses school desegregation programs. These reimbursements are funded from the General Fund based on claims filed by school districts.

Extent of Participation: Twelve school districts receive reimbursement for court-ordered programs, and 42 school districts receive reimbursement for voluntary programs.

Child Nutrition

Funding in 1993-94: $59.6 million (less than 1.0% of total state school aid).

Description: The Department's Office of Child Nutrition Services administers the state child nutrition and Pregnant and Lactating Students programs. It also supervises the federally funded National School Lunch and Breakfast programs and the Child Care Food program. These programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced price meals to children from low-income households.

Child Development

Funding in 1993-94: $450.7 million (3.0% of total state school aid).

Description: The Child Development Division (CDD) within SDE administers a variety of subsidized child care and development programs that provide services directly to children from low-income families and to those with special needs. The major goals of these direct service programs are to (1) enhance the physical, emotional, and developmental growth of participating children, (2) assist families to become self-sufficient by enabling parents to work or receive employment training, and (3) refer families in need of various support services to appropriate agencies. The CDD also administers several programs that provide indirect services such as capital outlay, child care referrals to parents, and training for providers.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. Early Childhood Education

Funding in 1993-94: $39.6 million (less than 1.0% of total state school aid).

Description: Pre-kindergarten consists of a variety of programs, generally similar to Headstart in purpose. These programs vary by district.

XIII. LOCAL SCHOOL REVENUE

Local governments in California collect taxes on property and sales as well as other charges and fees.

Property Tax

The major source of local revenue for school districts is the property tax. Since the passage of Proposition 13 in June 1978, property tax levies are constitutionally limited to one percent of assessed value plus debt service obligations in place at the time of Proposition 13's passage. In addition, levies for debt service approved by two-thirds of a districts' voters have been allowed since the passage of Proposition 49 in 1986. Other than these levies for debt service, *ad valorem* taxes in excess of one percent of assessed value are constitutionally prohibited under Proposition 13.

Assessed value is defined in the constitution as the assessed value of a property in 1975-76 with inflationary increases limited to no more than two percent a year. All property is reassessed at market value when it is sold or otherwise changes hands. This process results in substantial disparities in the taxes paid by similar properties. These differences are based solely on the length of time since the property was last sold. This system was challenged in 1990, but United States Supreme Court recently ruled that the existing system is acceptable. Property taxes are levied on a county-wide basis and the revenues raised are distributed to local governments within each county on the basis of the proportion of total county tax receipts at the time of Proposition 13's passage. However, beginning in 1993-94 and continuing in 1994-95, the legislature shifted a portion of the property tax away from cities and counties to school districts. For 1993-94, this amounted to a one-time shift of $1.4 billion. For 1994-95, the shift was $2.6 billion. It is unknown at this time whether a similar shift will be implemented for 1995-96.

Beginning in FY 1987, after the passage of Proposition 49 in 1986, school districts were given access to two new revenue sources, both for capital construction: 1) a bonded indebtedness property tax levy if approved by two-thirds of the voters; and 2) and a fee on newly developed property (up to $1.56 per square feet for residential and up to $.26 per square foot for commercial property) that can be levied by local school boards without voter approval.

Income Tax

Local governments do not levy income taxes.

Tax Exemptions and Credits

Taxpayers who are blind, elderly homeowners and renters (62 years old or over), or totally disabled homeowners and renters, with the total household income under $13,200 are eligible for state-financed circuit breakers. All homeowners and disabled veterans are eligible for homestead exemptions if assessed value of the owner-occupied house is under $100,000.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Property tax levies are constitutionally limited to one percent of assessed value and distributed to school districts on the basis of a legislatively determined formula that provides funds to each district in proportion to the share of county property taxes the district received prior to Proposition 13's passage. Districts can levy special taxes for the purpose of paying for general obligation bonds if they gain a two-thirds super-majority vote. They are constitutionally prohibited from levying other *ad valorem* property taxes. Such taxes may not preempt existing state taxes (e.g., sales, personal income, etc.).

Spending Limits

In addition to the Proposition 13 limitations, state spending is theoretically limited by the Gann Spending Limitation. Passed as Proposition 4 in 1979, this measure constitutionally limits increases in state general fund expenditures to no more than the growth in state population plus the growth in California personal income. Prior to the 1990 passage of Proposition 111, which made significant changes in both the Gann limitation and Proposition 98, the inflation factor in the Gann limitation was the lesser of the growth in the CPI-U or personal income, but Proposition 111 changed the measure to personal income, which has historically tended to be slightly higher. Proposition 111 also changed the population growth factor used to calculate the Gann Limit, splitting the growth into two components, 40 percent based on the growth in school aged children, and 60 percent on the basis of total state population. Since the school age population in California is growing faster than overall population, this figure increases the amount of spending allowed under the Gann Limit. The 40-60 split is related to the Proposition 98 requirement that approximately 40 percent of the state's general fund budget be spent on K-14 education. Although the Gann Limit appears imposing, the state has only exceeded the limitation once since 1979, and the severe budget shortfall in 1991-92 precludes the likelihood of the state reaching the Gann Limit any time during the next decade.

XV. EARMARKED STATE REVENUE

Under Proposition 98, passed in 1988, a fixed percentage of the state's general fund budget is to be dedicated to K-14 public education. Originally this figure was approximately 40 percent of the general fund. However, in 1992-93 and again in 1993-94, the legislature shifted a portion of the property taxes collected away from other local governments and gave them to school districts. This shift, which amounted to $1.4 billion in 1992-93 and $2.6 billion in 1993-94 was used to replace state funds and not increase total spending. Thus, the required share of the general fund budget was reduced accordingly each year. Since the tax shifts were enacted as temporary (one-time) laws, the changes in the Proposition 98 guarantee are also temporary and will revert to the Proposition 98 guidelines if the Legislature chooses not to continue the property tax shifts in the future.

The California State Lottery was established by the voters in 1984. The initiative stipulated that a minimum of 34 percent of the lottery's receipts must be used to fund education, and that the funds must supplement existing state allocations to education. The lottery has never provided more than four percent of the total funding for the state's schools, and in 1993-94 provided K-12 education with $540.6 million. This figure represents about $105 per ADA, and is about a third less per ADA than that provided by the lottery only three years earlier.

XIV. SPECIAL TOPICS

In November 1993, California voters defeated a proposed voucher plan. Designed as a constitutional amendment, the voucher plan would eventually have provided any parent that so desired a voucher equal in value to approximately one-half of the amount spent in California for public education. Since the measure was not specific, it was assumed that this would be one-half of all expenditures including Federal funds, and was expected to amount to approximately $2,600 per child when implemented in 1995-96. Although defeated at that time, there is still considerable interest in a voucher program in California.

Another major reform initiated in California has been charter schools. The initial legislation, passed in 1992, allows for a total of 100 charter schools in the state, and no more than ten in any individual school district. To date, there are approximately 80 charter schools across the state, and ten (the maximum) in the state's largest school district, Los Angeles Unified.

COLORADO

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The Colorado description discusses the education finance system for the 1994-95 school year, unless otherwise noted.

I. GENERAL BACKGROUND

State

- Colorado's current school funding formula was created with the passage of the School Finance Act of 1994, which differed radically from prior power equalization approaches (1981-1988), and the foundation plan that grouped districts in one of eight setting categories (1989-1994). It took effect in July 1994.
- No current lawsuits are pending, and no significant school finance litigation has been decided since *Lujan* v. *Colorado* in 1982 (649 P.2d 1005).
- In 1994-95, the state share of school finance spending rose to 53.4 percent. For any given school district, the state share of the equalized total program varies from 90 percent to zero percent, depending on local revenues.
- State support for schools comes from the General Fund (predominantly income and sales taxes) and School Lands and Mineral Lease revenues, which are dedicated to school support.
- During the 1994-95 school year there were 13 charter schools operating throughout the state pursuant to enabling legislation passed during 1993.

Local

- There were 612,053 K-12 students in 176 independent school districts in October 1994. All districts are responsible for grades K-12. In addition, there are 19 Boards of Cooperative Educational Services (BOCES), which afford school districts a mechanism for joint service provision. These are most commonly used for special education among smaller and rural school districts, but are authorized to engage in a broad range of services among cooperating districts, including purchasing, administration, and media services.

- The local share of funding comes from the property tax, and collections of an *ad valorem* tax on vehicles.
- The Taxpayers' Bill of Rights (TABOR), a constitutional amendment passed by voters in 1992, limits the growth of state and local revenues and spending and subjects changes in taxation to votes of relevant constituencies.
- Local voters may override the formula determined equalized foundation spending level up to the greater of 20 percent of the total program funding level or $200,000. This leeway was increased from 15 percent under the 1988 Act to 20 percent under the 1994 Act.

Funding Summary, 1994-95 (Estimated)

Total State School Aid (All Programs)		$1,511 million
Grants in aid	1,511 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Tax Revenue		$1,293 million
Property tax revenue	1,196 million	
Other local source tax revenue	97 million	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$2,804 million
State Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Funding in 1994-95: $1,416.0 million (93.7% of total state school aid).

Nature of Program: Foundation program created by the School Finance Act of 1994. Title 22, Section 54, Subsection 108, Colorado Revised Statutes (C.R.S.)

Allocation Units: Pupils. The October 1 enrollment count within the budget year is used for purposes of determining school district funding (Section 22-54-103, C.R.S.). Enrollment is defined as pupil count on the school day nearest to October 1. The funded pupil count is either that enrollment total or, for declining enrollment districts, a two year average enrollment (the current October 1 count and the October count in the preceding budget year).

Local Fiscal Capacity: Assessed property valuation, and specific ownership tax (vehicle ad valorem).

How Formula Operates: Funding is calculated as follows:

A district's total program is defined to be the sum of its At-Risk funding and its Per Pupil Funding level times the Pupil Count as follows:

District Total Program = (Per Pupil Funding x Pupil Count) + At-Risk Funding

The Per Pupil Funding is the statewide base as modified by the district's personnel costs factor, its cost of living factor, and its size factor:

Per Pupil Funding = [(Base x Personnel Costs Factor x Cost of Living Factor) +
(Base x Nonpersonnel Costs Factor)] x Size Factor

The Cost of Living Factor affects only the portion of the Base that reflects the district's personnel costs.

As indicated in the first formula, a district's Total Program also reflects the presence of At-Risk pupils:

At-Risk Funding = Number of At-Risk Pupils x At-Risk Factor x Per Pupil Funding.

Basis For Funding: The funding formula allocates all revenue on a per pupil basis.

Method for Differentiating Funding Among Districts: Each district's per pupil funding level is determined individually with adjustments to the statewide base to account for size, cost of living, and the proportion of at-risk pupils.

Method of Allocating Revenue: A statewide base per pupil funding amount set forth in law to be provided for every student in the state. This amount is modified in each district to take into account the district's cost-of-living factor, size adjustment, and personnel costs percentage (Section 22-54-104, C.R.S.).

Base Funding: The statewide base per pupil funding amount is $3,390.00 per pupil (Section 22-54-104(5)(a), C.R.S.), and the minimum per pupil funding is set at $3,975.00, for 1994-95.

Beginning on July 1, 1992, all school districts operate on a July 1-June 30 fiscal year, paralleling the state fiscal year. School districts previously operated on a calendar fiscal year like other local governments; to make the transition, there was a short fiscal year (January 1-June 30, 1992), known as the Transitional Fiscal Year (TFY).

State Share: The state share is the difference between formula level of funding and the amount of local property tax revenue and the specific ownership taxes. All investment revenues from funds derived from the sale or lease of school lands and the school district share of federal mineral lease revenues are collected centrally by the state and dedicated to school finance. In 1994-95, this amounts to $41 million. The remainder of the $1,416 million in school finance comes from the general fund.

Local Share: Each district is required to impose a property tax levy in conformance with the Constitutional Amendment that limits the growth of each district's property tax to the rate of inflation and enrollment growth. In addition, a vehicle ad valorem tax (known as "specific ownership tax"), except that related to bond redemption or override levies, is counted as part of local revenue.

Minimum State Aid: Districts are guaranteed a minimum amount of state aid ($73.76 per pupil in 1994-95). This floor level of funding is based on the amount of school lands and mineral lease moneys received by the state. For Districts receiving minimum state aid, the amount of the mill levy is that which generates a district's Total Program less Specific Ownership Tax revenue and less minimum state aid.

Weighting Procedures: Kindergarten and pre-K students are weighted at 0.5 FTE. Three and four year old special education students and at-risk pre-school students are also weighted at 0.5 FTE.

Adjustments for Special Factors:

1. *Personnel and Nonpersonnel Costs factors:* The personnel costs factor varies by school district based on enrollment. This factor, expressed as a percentage, reflects historical district data increases (at a decreasing rate) as enrollment increases, from a low of 79.6 percent in a hypothetical district with zero pupils to 90.5 percent in a district with 30,000 pupils or more. The district personnel costs factor is multiplied by the statewide base per pupil funding amount to determine the portion of the statewide base to which the cost-of-living factor is applied (Section 22-54-104 (5) (d), C.R.S.). Each district's Nonpersonnel Cost Factor is the difference between 100 percent and its personnel cost factor.

2. *Cost-of-Living factor:* The cost-of-living factor reflects the differences in the costs of housing, goods, and services among regions in which districts are located.

   The Legislative Council staff certified a cost-of-living factor for each district for FY 1994-95 and 1995-96 to the department of education following the enactment of the Finance Act.

A new cost-of-living analysis must be conducted every two years. The next cost-of-living analysis would be effective for the 1996-97 budget year. This factor is applied to the percentage of the statewide base that is allocated for personnel costs.

3. *Size factor:* Each district is assigned a size factor through an enrollment-based formula. The formula mirrors a backwards J curve, whereby the smallest districts (under 5,814 ADM) receive the greatest size adjustment, and a size adjustment is also provided to the largest districts (over 21,940) in the state. The size adjustment is modified such that the trough of the J curve is raised relative to other districts. The hypothetical district with zero pupils would receive a size adjustment of approximately 159 percent, decreasing to no size adjustment for districts between 5,814 and 21,940 pupils, and again increasing to a maximum size adjustment of 3.42 percent for districts with 32,193 or more pupils.

4. *At-Risk factor:* An at-risk pupil is defined as a student who is eligible for the federal free lunch program (Section 22-54-103, C.R.S.).

   In FY 1994-95, the number of at-risk pupils for which funding is provided is the actual free lunch count or the actual free lunch count plus 25 percent of the difference between the actual count and the number of pupils who would be eligible if the grade 1 through 8 percentage of free lunch pupils was applied to the total student enrollment. A district receives at least 11 percent of its per pupil funding for each at-risk pupil, but this percentage figure increases as the concentration of at-risk pupils increases (by three tenths of a percentage point for each percentage point that the district's at-risk proportion exceeds the statewide average).

   Beginning in FY 1995-96, the number of at-risk pupils in a district is calculated by determining the percentage of the pupil enrollment in grades one through eight eligible for the federal free lunch program and applying that percentage to the total student enrollment.

5. *Hold harmless:* With the adoption of the new formula, a hold harmless became effective for the 1994-95 and 1995-96 budget years. The hold harmless applies differently in growing and declining enrollment districts. For increasing enrollment districts, the total program is the sum of the prior year's total program and the new per pupil funding under the 1994 Act multiplied by the increase in enrollment from the prior year. For declining enrollment districts, funding is calculated as the prior year per pupil funding multiplied by the current year pupil count. In 1994-95, 26 districts were anticipated to be held harmless (Section 22-54-104 (6), C.R.S.).

6. *Categorical buy out:* The categorical buyout provisions of the school finance act require that certain districts offset or "buy out" state categorical aid with local property tax revenue. Any district that has funded its program cost, less minimum state aid and specific ownership taxes, with a levy less than the prior year's levy or a property tax change less than the sum of inflation plus the percentage change in enrollment must levy additional mills to offset all or a portion of state categorical support. The categorical programs that are subject to the local buy out provisions include special education, the English Language Proficiency Act, transportation, and vocational education. The additional levy for the categorical buy out cannot result in a levy that is greater than the prior year's or in property tax revenue that exceeds the constitutional property tax revenue limit.

   In 1994-95, two districts will raise in total $836,000 in categorical buy out funds.

7. *Revenue Growth Limits:* The Constitutionally imposed limitation on revenue growth is determined for each district by the rate of inflation plus its growth in pupil enrollment. It was estimated that funding would increase under the new Act by more than the Constitutional limitation in 118 school districts. To ease this situation, the Act distributed additional aid in 1993-94 to bolster the base upon which any growth in 1994-95 funding would be calculated.

   This change reduced the number of districts to 42 that would exceed the growth limitation. The state share in these districts is calculated so as to ensure that the percentage increase in funding does not exceed the Constitutional limit: the lesser of 1994-95 state aid, the amount by which the increase in funding exceeds the spending limit percentage, or 80 percent of the difference between 1993-94 funding and the amount allowed by the spending limit percentage.

8. *Earmarked Revenue:* Districts must allocate a minimum of $111 per pupil for instructional supplies and materials and $202 per pupil for capital reserve, insurance reserve, or risk management (see Section IV). Of the instructional funds, expenditures for staff development are limited to one-third of the allocation.

Aid Distribution Schedule: The total state share is distributed monthly in equal amounts (i.e., one-twelfth each month). There is a six month close-out, given the reliance on the current year pupil count, such that the December payment is determined by one-half of the full entitlement less the amount allocated to date.

Districts Off Formula: In 1994-95, 26 districts were anticipated to be held harmless.

III. TRANSPORTATION

Funding in 1994-95: $33.8 million (2.2% of total state school aid).

Description: Approved transportation costs are funded at 37.87 cents per mile, plus 33.87 percent of the amount by which those costs exceed the mileage reimbursement. Approved costs exclude purchase or lease of vehicles or other capital outlay. Approved costs include fuel and oil; maintenance and repair of vehicles, equipment, and facilities; costs of employment for drivers, supervisors, and support services; insurance; contracted services; reimbursements to students who use public transportation; and transportation for special education and vocational programs (C.R.S. 22-51-102 *et.seq.*).

State and Local Shares: State reimbursement may not exceed 90 percent of a district's operating expenditures for transportation, regardless of the formula. Local share is whatever remains after state reimbursement. A district may impose an additional mill levy, subject to voter approval, to raise its share of transportation costs. If the appropriation is insufficient to fund the total amount required by formula, districts receive a pro rata share of their funding. In 1994-95, districts will receive 75.6 percent of their formula amount.

Districts that are required to provide transportation pursuant to court-ordered desegregation orders are entitled to receive not less than 55 percent of the district's transportation operating expenditures.

Extent of Participation: 175 districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

School districts are required to budget at least $202 (up to $800) per pupil out of their equalized formula funding for capital outlay, insurance, and risk management. The state does not provide any additional funding for capital outlay.

Debt Service

The state does not provide funding for debt service.

Local Capital Project Financing

Most capital needs are met through the sale of voter approved bonds; the levy to pay principal and interest on such bonds is in addition to the equalization program levy and local overrides, and is exempt from tax and spending limitations.

The 1994 Act increased the limitation on bonded debt from 20 percent of assessed value to the greater of 20 percent of assessed or 6 percent of actual value.

V. TEACHER RETIREMENT

Teacher retirement is funded as part of local budgets. All districts except Denver are members of the Public Employees Retirement Association (PERA), which also covers state employees and many county, municipal, and special district employees. Teachers contribute 8 percent of salary, while districts pay the remaining 11.6 percent (employer contribution rate was changed effective July 1, 1992).

VI. SPECIAL EDUCATION

Funding in 1994-95: $56.4 million (3.7% of total state school aid).

Description: The method for allocating funding for special education (Exceptional Children's Educational Act) was significantly revamped in 1994. Prior to FY 1994-95, an administrative unit was entitled to reimbursement of up to 80 percent of approved costs such as salaries, consultation, and evaluation services, in-service training, specific equipment, certain tuition fees, and mileage expenses incurred by consultants. Beginning with FY 1994-95, an administrative unit, which may be a school district, a board of cooperative services, or a combination of school districts, is entitled to a base amount of state funding equal to the amount of state funding received in the preceding budget year. Once the base amount of funding is determined for all districts, any remaining portion of the appropriation is distributed to administrative units providing special education services to more children than during the preceding budget year. Each unit's share of this additional amount is based on its proportion of the total number of additional children in the state being provided with special education services.

For FY 1994-95, the General Assembly appropriated $56.4 million of state general fund revenue for the Exceptional Children's Educational Act. The first $53.8 million of the appropriation, which was the amount appropriated in FY 1993-94, provides base funding for administrative units. From this amount, each unit is allocated the same total dollar amount of funding received in FY 1993-94. The remaining $2.6 million is divided among units with an increase in the number of students receiving services, and the amount each unit receives is based on its percentage of such new students statewide.

State and Local Shares: State funding has never been adequate to meet the full cost of educating eligible students. If the state allocation is not adequate, districts budget money from funds received under the school finance act.

Extent of Participation: 176 (all school districts receive some special education funding, either directly or via their participation in a Board of Cooperative Education Services, BOCES).

Colorado School For the Deaf and Blind [CSDB]. This school is responsible to the CDE and receives funding through the department. If a student is enrolled in CSDB (as either a day student or a residential student), the sending school district counts that student as part of its enrollment for funding purposes. It then forwards to CSDB its per-pupil operating revenues for that student. The state appropriates directly to the school the difference between the amounts paid by the districts and the total budget needed for the school; In 1994-95, this amounts to $5.3 million, which is in addition to the $56.4 indicated above.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

The Colorado department of education provides technical assistance and consultation in curriculum development, and under the special education act, $1 million was appropriated to assist districts in 1994-95.

IX. BILINGUAL EDUCATION

Funding in 1994-95: $2.6 million (less than 1.0% of total state school aid).

Description: English Language Proficiency Act (CRS 22-24-101 *et. seq.*). Pays for up to two years of additional service to children whose dominant language is not English, amounting to the greater of $400 or 20 percent of the statewide average per-pupil operating revenues for the prior year, whichever is greater.

Seventy-five percent of the appropriation is to be used for this purpose. (These are known as "A/B" students in a reference to the sections of the act.) The remainder of the appropriation is to be used for bilingual or multilingual students whose dominant language is difficult to determine. These students are to be funded at the greater of $200 or 10 percent of the statewide average per-pupil operating revenues for the prior year. (These are known as "C" students.)

State funding has been insufficient to meet formula costs, therefore payments to district have been prorated. Because the appropriation has remained flat for the past several years, actual payments were $166.22 per A/B student and $201.24 per C student.

State and Local Shares: State funding has never been adequate to meet the full cost of educating eligible students. If the state allocation is not adequate, districts budget money from funds received under the school finance act.

Extent of Participation: 102 districts in 1994-95. There were 11,939 A/B students and 3,232 C students.

X. OTHER CATEGORICAL PROGRAMS

Special Contingency Reserve

Funding in 1994-95: $2.2 million (less than 1.0% of total state school aid).

Description: Part of school finance act (CRS 22-54-117). The state board is authorized to order payments from the state contingency reserve for the following circumstances: (1) financial emergencies; (2) insufficient levies for abatements and refunds; (3) unforeseen contingencies; or (4) financial burdens caused by court ordered or agency placement of children in the district. In determining which districts receive payments and the amounts of payments, the state board considers the amount of assistance requested as a percentage of each district's total program.

State and Local Shares: Entirely state funded. In 1994-95, the appropriation is sufficient to pay 100 percent of estimated claims.

Extent of Participation: Unknown when this description was prepared.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

In 1992, there was an initiative proposing a voucher system of school funding on the general election ballot. It was not approved, but the voucher proposal would have required that all funds currently spent for public K-12 education would be evenly divided among all K-12 students, public and private, in the state.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1994-95: $17.5 million (included in the total program costs). Funding for two programs, serving disabled and at-risk preschoolers, is provided within the School Finance Act.

Description: Two programs are part of the School Finance Act: 3- and 4-year-old children with disabilities and 4- and 5-year-old children at-risk of school failure. Children with disabilities are included without limitation, while enrollment in the at-risk program has been capped at 4,500 pupils in 1994-95. Starting in FY 1995-96, the number of at-risk preschoolers funded is increased to not more than 6,500 children, and 8,500 in the FY 1997-98 and thereafter. These preschool programs may be provided directly by a district, or the district may contract with public (such as Head Start) or private providers. Specific state requirements regarding class size, parental involvement, and teacher training and planning must be met to participate in the program.

State and Local Shares: Preschool children are weighted at 0.5 FTE. State share varies, since these pupils are in all other respects funded the same as all other students in the basic program.

Extent of Participation: 146 districts serve 4,150 children with disabilities, and 85 districts serve 4,500 at-risk children.

XIII. LOCAL SCHOOL REVENUE

(1994-95 revenues)

Mill levy toward finance act	$1,141.0 million
Optional local mill levies (override)	55.3 million
School district share of specific ownership tax	96.7 million
Total local tax revenues	$1,293.0 million

Property Tax

The property tax is the major tax local districts are allowed to use. In 1994-95, it is expected to raise $1,141 million (including categorical buyout and hold harmless funding). In addition, local districts may, with voter approval, supplement their formula funding with an additional local levy not to exceed the greater of 20 percent of their formula funding or $200,000. This limit takes effect in 1994-95; in previous years, the limit was 5 percent of total funding in 1989 before increasing to 10 percent and 15 percent prior to the provisions of the new act.

With voter approval, a district may also impose an additional levy to cover the local share of transportation costs. Beginning with the 1993 property tax collection cycle, a district can impose (upon approval by the school board) an additional levy of up to two mills for up to four years to pay the costs of asbestos and hazardous material removal, and to pay the costs of compliance with the Americans with Disabilities Act. The maximum revenues collected by this levy cannot exceed total costs incurred, but may include costs incurred prior to the imposition of the levy.

Twenty-four school districts have adopted voter approved override mill levies, raising $55.3 million statewide. Only 1 district has adopted the local option transportation levy.

Commercial and industrial property is assessed at 29 percent of market value, with special provisions for agricultural property (assessed at 29 percent of use value), producing mines and mineral property (generally assessed at 29 percent of some fraction of annual production), and vacant land.

Residential property is assessed at a floating rate (currently 12.8 percent of market value), adjusted biennially to ensure that residential property makes up the same percentage of total assessed value that it did in 1985 (Colorado Constitution, Article X, Section 3).

County assessors determine the value of property in each of the 63 counties, except that utilities and certain large industrial and commercial properties are centrally assessed by the Division of Property Taxation in the state Department of Local Affairs. All property is required to be reassessed every other year. In the intervening year all property may be reassessed upward if values rise more than 20 percent statewide. Property assessments are based on actual value in the year prior to assessment, and taxes are payable in the year following assessment. County assessment totals are reviewed by the State Board of Equalization each year; the board may require assessors to revise or amend them, or may even reinstate the prior year's assessed levels pending a reappraisal of the entire county.

Income Tax

None.

Other Sources of Local Tax Revenue

In addition to the property tax, each county collects an annual ad valorem tax on all registered vehicles. These revenues are distributed pro rata to counties, cities and school districts in each county; these funds are equalized and counted as part of local effort. In fiscal year 1994 these funds amounted to $96.7 million statewide.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

As described above, local option mill levies are limited to 20 percent of formula funding or $200,000, whichever is greater, and must be voter approved. Total bonded indebtedness is limited to 20 percent of assessed valuation or six percent of actual assessment.

A tax and spending limitation measure was adopted on the November 1992 ballot. Colorado voters had rejected tax limitation measures in each of the preceding two general elections.

Approval of Budgets and Bond Issues

All bonded indebtedness must be voter approved, but levies to provide principal and interest repayment are outside of the limitation on optional local levies and the mill levy applied to the equalization program.

XV. EARMARKED STATE REVENUE

All investment revenues from funds derived from the sale or lease of school lands and the school district share of federal mineral lease revenues are collected centrally by the state and dedicated to school finance. In 1994-95, this amounts to $54 million. This amount is appropriated annually as part of the state equalization program, with general fund revenues providing the balance of the state aid.

XVI. SPECIAL TOPICS

Miscellaneous fees (22-32-117, 22-33-104.5, C.R.S.): Districts have the discretion to assess fees for tuition, textbooks, or expendable supplies, participation in an interscholastic activity, summer school, or continuing or community education programs. These fees must be spent for the purposes for which they are collected.

Charter Schools Act (CRS 22-30.5-109): In 1993, the General Assembly enabled local boards to charter as many as 50 schools statewide by 1997. Priority is given to schools that increase opportunities for low achieving and at-risk pupils. A school cannot be sectarian, home-based, or a conversion of private school. The charter proposal specifies desired releases from local and state regulations; the local board approves the proposal and releases from state policies are approved by the State Board. The district Pupil Count includes charter school students, but the school's base budget is 80 percent of the district's per pupil operating revenue with the remaining 20 percent a negotiable amount to purchase services from the district or outside vendors.

Children Placed in Special Facilities (CRS 22-54-109): The state board of education has the authority to approve special facilities including: residential child care facilities, community centers, regional centers, the school for the deaf and the blind (CSDB), and other group care facilities or homes. CDE withholds an amount equal to per pupil operating revenues of the district, to be forwarded to the facility delivering the service.

CONNECTICUT

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I. GENERAL BACKGROUND

State

- The state share of funding for public elementary and secondary schools increased throughout the 1980s, from 33.3 percent in 1980-81 to 45.5 percent in 1989-90 and then declined. The state share was 40.3 percent in 1993-94. During this same time period, the local share has declined from 59.1 percent to 54.9 percent, and the federal share has declined from 7 percent to 4.6 percent. Miscellaneous revenues, receipts, and private contributions make up the rest.

- Between 1979-80 and 1988-89, Guaranteed Tax Base (GTB) was Connecticut's major program of state education aid to towns. The Education Enhancement Act of 1986, begun in 1986-87 and ending in 1988-89, provided grants to towns to improve the starting and midcareer salaries of teachers. The purposes of this grant program were to establish a minimum salary, support increases in teachers' salaries, and improve teacher/pupil ratios. The Enhancement Act, together with the GTB formula, operated to reduce inter-district per pupil spending disparities. The difference between the 95th and 5th percentile districts ranked on expenditures per pupil fell from 70 percent in 1984-85 to 50 percent in 1989-90.

- A new Education Cost Sharing formula, a modified foundation plan, replaced the GTB grant in 1989-90. Each district has a Minimum Expenditure Requirement (MER) based on the state foundation level and the district's weighted student count, both part of the ECS formula.

- At present, 95 percent of all state funds going to local government for education is distributed on an equalized basis.

- No state taxes are specifically earmarked for education aid. Up to 1991, retail sales and corporation taxes were the "workhorses" of the state tax system. In August 1991 the state enacted a broadbased personal income tax. At the same time retail sales and corporate tax rates were reduced. The base for the retail sales tax was broadened by including formerly exempted items. An existing tax on dividends, capital gains, and interest was repealed.

- A recent legal challenge — *Sheff* v. *O'Neill*, 1989 — links school finance inequalities to district segregation by race and economic class. The urban districts are largely poor and minority, thereby limiting the access of central city children to a more representative metropolitan tax base. Some very small towns, on the other hand operate schools that may be fiscally inefficient.

Local

- All school districts are coterminous with one or more general units of local government called "towns." The state has 169 towns. There are a total of 166 public school districts. Of these, 149 are town operated; 17 are regional, multitown school districts — half of these operate schools only at the upper grade levels.
- In addition, there are a number of specialized school entities. Chief among these are the 17 vocationaltechnical high schools funded and operated directly by the state. "Regional educational service centers" "entirely separate entities from the regional school districts mentioned above are funded by local, state, and federal payments. They provide a range of specialized services to the school districts in their regions.
- Three historically private academies are now effectively public high schools, but with their own governing boards. The prison system operates, for certain purposes, as a state-funded school system.
- All local school districts are fiscally dependent: school boards have no taxing authority. Property taxes (both real and personal) are the sole source of local municipal tax revenue. There are no statutory limitations on the amount of property tax which may be levied to support schools and other local public services. Towns are prohibited from levying any other taxes except property taxes.

Funding Summary, 1993-94

Total State Aid (All Programs)		$1,559 million
Grants in aid	1,435 million	
Teacher retirement contributions	124 million	
FICA	0	
Total Local School Tax Revenue		$2,307 million
Property tax revenue	2,307 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$3,866 million
State-Financed Property Tax Credits Attributable to School Taxes	0*	

* State law provides exemptions for veterans and circuit-breaker programs for the elderly. It is not possible to determine the amount attributable to school taxes since exemption and credit apply to the municipal property tax and school districts are financially dependent on towns.

II. BASIC SUPPORT PROGRAM

Equalized Cost Sharing Grant

Funding in 1993-94: $974.1 million (62.5% of total state school aid).

Nature of Program: Foundation formula, known as the Equalized Cost Sharing Grant (ECS) (Connecticut General Statutes 10-262(f-j)).

Allocation Units: Pupils. Four different measures of pupil count are used in the ECS.

1. Resident students are those enrolled at the expense of the town on October 1st each year. Adjustments are made for summer school and for a school year longer than 180 days. This count is used to determine town wealth.
2. Resident students in regular education programs is the count of resident students exclusive of students who are reported as receiving special education programs and services for 50 percent or more of their instructional time.

Only resident students in regular programs are counted in determining a town's general aid grant and its Minimum Expenditure Requirement (MER).

3. Mastery count is the result of multiplying the grant mastery percentage by the count of resident students in regular programs. The grant mastery percentage is the sum of the average mastery percentage and the mastery improvement bonus. The average mastery percentage is a 3-year average of the percent of mastery tests with scores below the state remedial standard. The mastery improvement bonus reflects 75 percent of the improvement in mastery scores for the most recent year.

4. AFDC Count or low income count is the number of children, ages 5 to 18, under the Aid to Families with Dependent Children program. These data are reported by the State Department of Social Services.

Local Fiscal Capacity: Equalized assessed property valuation and per capita income. The Equalized Net Grand List (ENGL) represents the fair market value of all taxable property (real and personal) in each town. For purposes of the ECS grant, the ENGL represents an average of three years of data and is updated annually. Per capita income is the most recent U.S. Census estimate of average income per person by town.

How Formula Operates: For each town, the state pays a percentage of the state established foundation level times a weighted student count.

Formula Aid = State Aid Percent x Foundation x Need Students

State Percent. Each town's State Percent is based on that town's wealth compared to the State Guaranteed Wealth Level. State Percent is inversely related to a town's wealth. The State Percent cannot be less than zero.

State Percent = 1 - (Town Wealth / State Guaranteed Wealth)

Town Wealth is based on each town's Equalized Net Grand List (ENGL) per need-student and on the town's relative per capita income (PCI).

Town Wealth = (ENGL / Need Students) x (Town PCI / Highest Town PCI)

State Guaranteed Wealth is 1.5361 times the statewide median town wealth. (The original 1988 legislation set the guaranteed wealth level at twice the median wealth; the guaranteed wealth level was reduced to 1.8335 times the median wealth in 1989, to 1.6551 in 1990, and 1.5361 in 1992.) The state guaranteed wealth level is an important factor in the formula and has a direct impact on the equalizing power of the aid formula; the higher the state guaranteed wealth level, the greater the ability of the formula to equalize towns' ability to finance education.

Foundation. The foundation is a per weighted pupil amount. The foundation began at $3,918 in 1989-90 and increased seven percent annually until 1992-93. The foundation has been set at $4,800 since 1992-93.

Need Students. Need student is a weighted student count that reflects the number of students in regular education programs plus additional counts for children in low-income families (AFDC) and additional counts for students who score below the remedial standard of the Connecticut mastery tests. Students who are receiving special education programs and services more than 50 percent of the time are not included in this count; their programs are funded by the state through the Special Education Grant.

Need Students = Resident Students in Regular Education Programs
+ .25 AFDC + .25 Mastery Count

Minimum Expenditure Requirement. Each town's MER is based on a state-established foundation expenditure level per pupil and the number of Need Students in that town. Need Students reflect the number of students in regular education programs plus additional counts for children in low-income families (AFDC) and additional counts for students who score below the remedial standard of the Connecticut mastery tests.

MER = Foundation x Need Students

The foundation is the minimum amount that must be spent per pupil in every district and has been set at $4,800 since 1992-93. For 1993-94, towns must use their new state aid (increase over prior year) to increase expenditures until their regular program expenditures exceed $5,040 per need student (105 percent of $4,800).

Each town is required to spend its MER combining state education aid under the ECS formula with local tax revenues. Eligible expenditures that can be credited toward meeting the MER are "regular program expenditures" (RPE). In general, RPE is defined as all of a school district's expenditures for public elementary and secondary education except:

(a) all special education expenditures eligible for state grants,
(b) all pupil transportation expenditures eligible for state grants,
(c) all school construction expenditures,
(d) expenditures from federal grants,
(e) expenditures from other state categorical grants, and
(f) tuition revenues.

Some low-spending districts receive substantial federal funds and state categorical grants (such as special education and bilingual education). Expenditures from these grants are not used to meet the MER. This results in: (a) these categorical grants being used only for the supplementary purposes for which they are designed, and (b) increased spending on regular education programs.

Connecticut state law authorizes the State Board of Education to penalize any town that fails to meet its MER by withholding ECS aid. The penalty is an amount equal to twice the amount by which the town failed to meet its MER. A town may avoid the penalty by agreeing to exceed its MER in the next year by an amount equal to the penalty. In addition, the State Board of Education has the authority under Section 10-4(b) of the Connecticut General Statutes to take necessary action against towns that do not meet their MER in order to ensure that the "educational interests of the state" are met.

State Share: The state share of the MER is equal to the calculated ECS amount plus any hold harmless aid.

Local Share: The local district's share is the difference between its MER and its ECS aid plus 100 percent of any local spending above the MER. Most districts spend above the MER. On average, districts are spending 15 percent above their MER

Adjustments for Special Factors:

1. Minimum Entitlement Provisions — Hold Harmless. The provision ensures that all towns receive at least as much state aid under the ECS Program as they received under the previous year's ECS grant.

2. Regional Bonus. Towns that are members of K-12 regional school districts are entitled to a bonus of $25 per student. Towns that are members of high school regional school districts are entitled to a bonus of $25 per student for those students who attend the regional high school times the ratio of the number of grades in the regional high school to 13.

Weighting Procedures: None

Aid Distribution Schedule: 25 percent in October, 25 percent in January, and balance in April.

Districts Off Formula: 98 districts (59 percent) receive at least some of their aid through the hold-harmless provisions. 45 districts (27 percent) receive all of their aid through the hold-harmless provisions.

III. TRANSPORTATION

Funding in 1993-94: $36.4 million (2.3% of total state school aid).

Description: This grant provides state funding to local school districts for the transportation of public school students. Limited funding is also available for the transportation of nonpublic school students. (Connecticut General Statutes 10-54, 10-97, 10-266(m), 10-273(a), 10-277, 10-281).

State Share: This grant reimburses school districts for up to 60 percent of their eligible transportation costs based on a district's relative "town wealth per capita." The poorest district is reimbursed at 60 percent and the 14 wealthiest districts at zero percent. Eligible transportation costs are the costs of transporting a student from home to school to home. Field trips are ineligible. The reimbursement percentages for regional school districts are increased by five percentage points for high school regions and ten percentage points for K-12 regions.

"Town wealth per capita" is measured as the town's equalized net grand list (real and personal property) per person. The income adjustment is the ratio of the town's average per capita income to the average per capita income of the income wealthiest town in the state. The population and per capita income data are the most recent available from the U.S. Census Bureau.

Local Share: Local districts pay costs not covered by state aid.

Extent of Participation: 166 districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Funding in 1993-94: $137.5 million (8.8% of total state school aid).

Description: This grant provides funding to local municipalities for the construction and renovation of school buildings. Local school districts do not have the power to issue bonds. Bonds for approved local school construction projects are issued by the municipality. The local legislative body in the municipality (council, town meeting) must vote to approve the construction project. The total value of all school construction bonds outstanding cannot exceed 4.5 times the municipality's total tax revenues for the previous year. State aid is provided for both the principal and interest on such bonds and is paid to the municipality as the bonds come due (Connecticut General Statutes 10-282 through 10-287(h), 10-65, 10-76(e)).

State and Local Shares: For new construction, expansion, and renovation of existing school buildings the state pays 20 percent to 80 percent of eligible costs based on town wealth per capita; the poorer the district the higher the reimbursement rate. Eligible costs are limited by school size caps based on allowable square feet per pupil. Local districts pay costs not covered by state aid. Most state funding for school construction is paid for using state bonds revenues rather than general fund revenues.

Extent of Participation: 166 districts plus 6 regional education service centers.

Local Capital Project Financing

See above.

V. TEACHERS RETIREMENT

Funding in 1993-94: $124 million (7.9% of total state school aid).

Description: The state operates the Teachers' Retirement System and pays the employer share of the program. This is a defined benefit pension system. The investment of the funds in the pension system is managed by the state treasurer. The state also provides funding for a portion of the health insurance costs of retired teachers and their spouses (Connecticut General Statutes 10-183(b) through 10-183(mm)).

State and Local Shares: The state pays 100 percent of the employer share of the costs of the pension program. There is a separate line in the state budget appropriating funds directly to the Teachers' Retirement Fund; no funds are paid to or by local school districts. Teachers contribute six percent of their gross salaries.

Extent of Participation: 166 districts plus 6 regional education service centers.

VI. SPECIAL EDUCATION

Funding in 1993-94: $237.8 million (15.2% of total state school aid).

Description: Local school districts are reimbursed for the costs of providing special education services. Students receiving special education services must have an Individual Education Program that describes the services to be provided, and students must be mainstreamed to the maximum extent feasible. Schools must identify and provide services to mentally or physically handicapped children. Schools must identify gifted and talented children and may provide services (Connecticut General Statutes 10-76 through 10-76(k)).

The $6.8 million Birth to Three program provides early intervention services to 2,000 children, birth to three years of age. The program implements Part H of the federal Individuals with Disabilities Education Act (IDEA)

State and Local Shares: The grant reimburses districts for two percent to 70 percent of their eligible costs based on relative town wealth. The poorest town is reimbursed at 70 percent and the 16 wealthiest towns at two percent. The grant provides current funded grants to districts for educating (1) state-agency-placed pupils, (2) pupils whose educational costs exceed 5 times the district average expenditure per pupil. and (3) eligible residents (18-21 years old) of Department of Mental Health facilities located in the district. Local districts pay costs not covered by state aid.

Extent of Participation: 166 districts.

VII. COMPENSATORY EDUCATION

No state aid program since 1991-92.

VIII. GIFTED AND TALENTED EDUCATION

No state aid program since 1991-92. Districts are still required to identify gifted and talented students under the special education statutes.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $2.2 Million (less than 1.0% of total state school aid).

Description: Local school districts are required to provide a program of bilingual education if there are 20 or more students in any public school who are dominant in any one language other than English and who are not proficient in English. These programs serve approximately 14,000 students in 13 local school districts (Connecticut General Statutes 10-17(a) through 10-17(h)).

State and Local Shares: The state appropriation is distributed on a per-pupil basis among the eligible districts.

Extent of Participation: 13 districts.

X. OTHER CATEGORICAL PROGRAMS

Priority School District Program

Funding in 1993-94: $11 million (less than 1.0% of total state school aid).

Description: This program provides funds and technical assistance to districts to support programs to (1) reduce their dropout rates, or (2) develop or expand extended-day kindergarten programs, or (3) for initiatives to strengthen parent involvement. Grant funds must be used to supplement existing programs or create new programs and may not be used to decrease the local share of support for education (Connecticut General Statutes 10-266(p) through 10-266(r)). This grant will be replaced in 1995-96.

State and Local Shares: Grants of $1 million each are paid to the eight largest (population) towns in the state. Grants of $500,00 are paid to six other high need towns based on the number of children under the AFDC program and the master count (see ECS grant).

Extent of Participation: 14 districts.

Regional Education Service Centers

Funding in 1993-94: $2 million (less than 1.0% of total state school aid).

Description: There are six regional educational service centers (RESCs) serving the school districts in the state. Each RESC is managed by a board composed of one member representing each participating board of education. RESCs help the participating school districts cooperatively meet locally identified educational needs. The RESCs provide education programs for special-needs students. The RESCs also promote the goals and policies of the state board of education and provide professional development programs for teachers on a regional basis. Local districts may purchase the services they need from the RESCs. Funded in part by competitive state grants, the RESCs also provide leadership in planning and implementing cooperative interdistrict efforts to advance quality and integrated education (Connecticut General Statutes 10-66(a) through 10-66(l)).

State and Local Shares: The state funds each RESC with (1) a basic grant of $85,000, (2) an amount based on state aid received under an earlier grant program to enhance teacher's salaries, and (3) a proportional share of the remaining funds based on the proportion of the Equalized Cost Sharing grants received by the member school districts.

The RESCs are also eligible to apply for competitive state grants. Local school districts contract directly for a number of services such as special education programs and professional development programs.

Extent of Participation: 163 districts belong to 6 RESCs.

Vocational Agriculture Program

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: There are 17 regional vocational agriculture centers attached to local high schools across the state. Students from the area may attend the host high school taking about one-third of their courses in the agriculture center. Approximately 1,700 students from 135 school districts take such courses (Connecticut General Statutes 10-64).

State and Local Shares: The state grant pays the host school district a grant of $700 per student enrolled in the program in the prior year. The state also pays 100 percent of the cost of building and equipping the center. The districts sending students to the vocational center pay the host district tuition. Such tuition may not exceed the average per pupil expenditure of the previous year for all secondary school pupils in the host district less the $700 per pupil grant. The host district may charge an additional tuition for special education pupils that may not exceed actual costs.

Extent of Participation: 17 host districts and 117 sending districts.

Interdistrict Cooperative Program

Funding in 1993-94: $4.6 million (less than 1.0% of total state school aid).

Description: This program funds, on a competitive basis, interdistrict cooperative programs that support voluntary integration. Grant proposals are submitted annually by groups of two or more school districts or RESCs. Proposals for planning grants may be funded up to $20,000. Grants for part-time and short-term programs may be funded up to $90,000. This grant program also provides state support to four full-time interdistrict magnet schools serving 500 students and an interdistrict student transfer program serving over 650 students. The receiving districts accept the transfer students on a space available basis and charge no tuition to the sending district (Connecticut General Statutes 10-74(d)).

State and Local Shares: The state pays up to 80 percent of approved program costs with the local district paying at least 20 percent of approved program costs for planning and part-time and short-term programs. The state provides $3,200 per full-time pupil to interdistrict magnet schools and $1 million to support the administrative and transportation costs for the interdistrict student transfer program.

Extent of Participation: 45 school districts and RESCs.

Child Nutrition Programs

Funding in 1993-94: $3.5 million (less than 1.0% of total state school aid).

Description: Connecticut provides the federally required state share of costs for child nutrition programs. Connecticut also provides school breakfast programs in 232 severe need schools in 34 districts (Connecticut General Statutes 10-215b).

Extent of Participation: 164 districts.

Young Parents Program

Funding in 1993-94: $0.2 million (less than 1.0% of total state school aid).

Description: This program is a competitive grant to help school districts maintain or establish programs with day-care components for students who are parents and need additional support in the public schools to continue their education (Connecticut General Statutes 10-74c).

State and Local Shares: Local districts are required to fund at least 50 percent of the cost of the program. State funds are limited to the amount appropriated.

Extent of Participation: 13 districts.

Head Start

Funding in 1993-94: $1.4 million (less than 1.0% of total state school aid).

Description: State funds are used to supplement the federal program to enhance program quality, extend the school day and calendar year and increase the number of children served (Connecticut General Statutes 10-16a).

State and Local Shares: There is no local share.

Extent of Participation: 16 Head Start sites, which are not necessarily school districts.

Family Resource Centers

Funding in 1993-94: $0.7 million (less than 1.0% of total state school aid).

Description: Family Resource Centers provide comprehensive social services support and education to families without regard to income or other distinguishing characteristics. These services include: (1) full-time preschool child care, (2) school-age child care, (3) families in training, (4) support and training for family day care, (5) positive youth development services, and (6) referral services (Connecticut General Statutes 17-605).

State and Local Shares: The state funds the total operating costs of the centers that are at or adjacent to elementary school sites.

Extend of Participation: Nine centers in nine school districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-94: $2.6 million (less than 1.0% of total state school aid).

Description: Local school districts must offer the same health services to children who attend nonprofit private schools as are available to children in public schools provided that the majority of the children in the private school are state residents (Connecticut General Statutes 10-217(a)).

State and Local Shares: The state reimburses 10 percent to 90 percent of eligible local school district expenses based on relative town wealth. Towns that provide services to more than 1,500 non-public students who are not residents of that town are entitled to 80 percent reimbursement. Towns where the number of children receiving AFDC services is greater than one percent of the total population are also entitled to 80 percent reimbursement.

Extent of Participation: 68 districts.

XII. EARLY CHILDHOOD EDUCATION

There is currently no state grant program targeting funding to school districts for regular prekindergarten education. Children who are in prekindergarten programs for at least one-half day are counted as part of the district's enrollment and increase funding entitlements under the Education Cost Sharing grant. In addition, the state provides $ .25 million to one of six RESCs to operate an interagency demonstration center which coordinates programs and services provided by public and private agencies serving families with infants and toddlers who are developmentally delayed.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Each school district is fiscally dependent on one or more coterminous municipalities. The state of Connecticut is divided into 169 municipalities that have the power to tax real and personal property. Real property must be reevaluated once every ten years, and at that time it is assessed at 70 percent of fair market value (FMV). Personal property is also assessed at 70 percent of FMV, but this FMV is adjusted annually. For purposes of the equalization study, real property is divided into three classes: (1) residential, (2) commercial and industrial, and (3) farmland. State equalization studies are done annually using fair market sales of real property. Towns are only allowed to tax property.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

State laws exempt approximately ten percent of all real and personal property from local taxation. The percentage of property that is tax exempt varies among municipalities. In ten towns more than 25 percent is exempt while in eleven towns less than five percent is exempt. Cities tend to have more tax exempt property. The following types of property are exempt

1. federal, state and municipal;
2. property of religious organizations including cemeteries;
3. private hospitals and not-for-profit health care facilities;
4. private schools and colleges;
5. common carriers and cable television operators.

In addition to the above exemptions, state law provides exemptions for veterans and circuitbreaker programs for the elderly. The state does provide some state grant funds to towns to replace lost tax revenues.

XIV. TAX AND SPENDING LIMITS

Tax Limits

The limit on total school bonds outstanding is 4.5 times the town's prior year total revenues. In addition, there is a cap on all kinds of bonds (education, sewer, general government) at 7.5 times total revenues. There are no statutes capping local tax rates.

Spending Limits

There are no state imposed caps on local spending for education. There is a state imposed minimum per pupil spending level (see MER discussion under General School Aid).

Voter Approval of Budgets and Bond Issues

All local budgets must be approved by the municipality's legislative body: either the common council, the town meeting, or the representative town meeting. Municipal departments submit their annual budget requests to the local board of finance, council, or legislative committee, which develops the proposed budget for submission to the legislative body. The above-mentioned board, council, or committee can revise the department's budget request item by item except for the board of education's budget. In the case of' education, the town financial (and later the legislative body) can only reduce the total budget. The board of education, therefore, has full control of its budget within its total appropriation.

The municipality's legislative body must agree on a budget. In smaller towns, the town meeting is the legislative body. In such towns, the taxpayers often vote by referendum on the budget and, in some cases, it has taken seven votes to approve the budget.

XV. EARMARKED STATE REVENUES

There are no state revenue sources earmarked for education.

XVI. SPECIAL TOPICS

Not applicable.

DELAWARE

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I. GENERAL BACKGROUND

State Support

- The state share of K-12 public school fund revenues is approximately 67 percent. The local share is about 25 percent and the federal government share about 8 percent. The relationship between these funding sources has been relatively stable.

- There are five basic components of the State funding; they are as follows:
  - a. Division I — These funds are for salaries and other employment costs provided under a series of staffing formulae and salary schedules specified in Title 14, Delaware Code. Staffing formulae are basically related to pupil units.
  - b. Division II — These funds are provided for all school costs except salaries, transportation, and debt service. These allocations are flat grants based upon pupil units.
  - c. Division III — These funds are commonly referred to as equalization aid. The funds may be used for any purpose that Division I or II funds may be employed. Funds are allocated inversely on the basis of school district wealth (full value of real estate per unit of pupils) and are distributed on a per unit basis.
  - d. Transportation — These funds pay 100 percent of the cost of transportation for eligible pupils to and from school through use of a formula established annually by the State Board of Education.
  - e. Debt Service — These funds are appropriated annually to pay the State's share of the cost of principal and interest on bonds issued for school construction and renovations in prior years.

- State funding is from annual General Fund revenues with no particular taxes earmarked for education. The State share of school construction funding comes from the sale of bonds. In 1991-92, Delaware adopted an equalization plan for school construction. In prior years, the State paid 60 percent of the cost of school construction for regular schools and 100 percent for vocational schools and special schools for handicapped children. The newly adopted plan calls for all schools to pay a share of the cost based on an ability index that is a factor in the equalization formula, a part of the unit funding system.

- The new plan calls for higher ability districts to provide 40 percent of the cost of construction while the poorer districts will provide funds on a sliding scale with no district paying less than 20 percent.

Local Support

- Delaware has 19 school districts that are autonomous State agencies. Districts have their own taxing authority and thus are independent of county or municipal governments. Delaware school districts do not follow geopolitical lines. All funds including local tax funds are held in State accounts. The State Treasurer functions as the treasurer for the school districts.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$ 462 million
Grants in aid	422 million	
Teacher retirement contribution	23 million	
FICA	17 million	
Total Local School Revenue		$ 210 million
Local school tax revenue	163 million	
Other local school tax revenue	0	
Local source non-tax revenue	47 million	
Total Combined State and Local School Revenue		$ 672 million
State Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $383.8 million (83.1% of total state school aid).

Nature of Program: Unit funding system (specifics contained in Title 14, Delaware Code.)

Allocation Units: Pupils. Unit funding based on September 30 unit count.

Kindergarten	40 pupils per unit (half-day program)
Grades 1-3	19 pupils per unit
Grades 4-12	20 pupils per unit
Special education	4-15 pupils per unit depending on handicapping condition

How Formula Operates: Each unit of pupils, based on September 30 unit count, generates unit funding divided into three parts:

Division I — Based upon degree and experience of teacher, State allocates State share of teacher salary (range $15,679 to $31,357) plus associated employee costs.

Division II — These funds are provided for all school costs except salaries, transportation, and debt service ($3,856 per unit).

Division III — These funds are commonly referred to as equalization aid. The funds may be used for the same purpose as Division I or II funds. Funds are allocated inversely on the basis of school district wealth (full value of real estate per unit of pupils) and are distributed on a per unit basis. (1993-94 total funding of $40.5 million. Wealthiest district received $1,769 per unit; poorest district $14,508 per unit.) The formula used requires that local districts must demonstrate effort by raising local revenues as matching for equalization.

An average unit was funded as follows:

1993-94 COST OF AVERAGE UNIT

Division I		$35,198
Salary	24,962	
Employee costs	4,950	
Health insurance	5,286	
Division II		$3,856
Division III		$6,532
Total		$45,586

The unit funding structure also provides for administrative, supervisory, clerical, custodial, and other support staff by providing the State share of salary and employee costs for these positions. The following are examples:

Assistant superintendent	1 for each 300 units
Supervisor	1 for each 150 units
Principal	1 per building if 15 units in building
Assistant principal(s)	1st at 30 units in building 2nd at 55 units in building 3rd at 75 units in building
Clerical	1 per 10 units for first 10 1 per 12 units thereafter
Nurse	1 per 40 units

Special education and vocational education are provided for in the unit funding structure. Special education units are weighted for higher risk pupils by varying the number of pupils in the unit according to the handicapping condition. The units are as follows:

Educable mentally handicapped	1 unit for each 15 pupils
Socially or emotionally maladjusted	1 unit for each 10 pupils
Learning disabilities	1 unit for each 8 pupils
Blind	1 unit for each 8 pupils
Autistic	1 unit for each 4 pupils
Severely mentally handicapped	1 unit for each 6 pupils
Orthopedically handicapped	1 unit for each 6 pupils
Trainable mentally handicapped	1 unit for each 6 pupils
Partially sighted	1 unit for each 10 pupils
Intensive Learning Center pupils	1 unit for each 8.6 pupils
Hearing impaired	1 unit for each 6 pupils
Deaf-Blind	1 unit for each 4 pupils

Vocational education is also funded through the unit structure with a unit provided for each 15 FTE pupils enrolled in a vocational program. Since these pupils are also counted in the regular unit count, there is a .5 per unit deduction of a regular unit for each vocational unit.

State Share: The state share is equal to the calculated amount for Divisions I, II, and III.

Local Share: All school districts supplement the state schedules.

Weighting Procedures: Achieved by varying the number of pupils per unit.

Adjustments for Special Factors: None.

Aid Distribution Schedule: On July 1st, 75 percent of the aid is placed into state accounts. Adjustments are made after September 30th.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $39.9 million (8.6% of total state school aid).
Includes $2.9 million for reimbursement to non-public schools.

Description: The state pays 100 percent of the cost for public school pupil transportation to and from school. Private contractors and local districts that operate buses are reimbursed on a formula that is based on a 30-mile minimum route and other factors such as the age of the bus plus cost of gasoline, insurance, and an annual inflation factor based on the Consumer Price Index.

Delaware also provides reimbursement to nonpublic students. The amount is determined by the size of the annual appropriation and the number of eligible pupils.

Eligibility for transportation in the case of public school pupils and reimbursement in the case of nonpublic pupils is determined by distance from home to schools. Pupils in Grades K-6 are provided transportation or reimbursement if the distance exceeds one mile. Pupils in Grades 7-12 are transported or reimbursed when the distance exceeds two miles.

Extent of Participation: All districts. Approximately 85 percent of Delaware public school pupils are transported.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Capital Outlay

Delaware has historically provided funding for capital outlay financing at a ratio of 60 percent state and 40 percent local for regular schools and 100 percent state for vocational and special education facilities. The FY 1992 Bond Bill (HB 390) provided for equalization of school construction funds. Wealthy districts, as identified by an ability index, a factor in the basic equalization formula, would continue to pay a 40 percent share. Poorer districts would pay a diminishing ratio based on ability with no district paying less than 20 percent of the total cost. Vocational schools and special education schools would pay a share based on the ability of the county in which they are located.

Local districts supply their share of construction cost by selling, after approval by referendum, school district bonds to the State that in turn sells State of Delaware bonds on the bond market. The approval referendum authorizes local districts to set a property tax rate sufficient to pay the principal and interest on the bond issue.

In addition to providing funding for capital outlay financing, referred to as Major Capital Improvements, Delaware has two additional programs related to facilities.

The Minor Capital Improvement Program provides on a 60 percent state, 40 percent local basis funding for scheduled maintenance and repair of school buildings. Vocational and special education schools receive 100 percent funding. In FY 1994, Delaware provided $4.8 million with local districts providing $3.2 million for this program. The local share portion of this program is provided by a local property tax. A tax rate may be set by the local districts at a level sufficient to match the state appropriation without a referendum. Allocations from this program are made based on district enrollment.

School building maintenance, a 100 percent state funded program for unscheduled repairs, is allocated on a formula that includes factors of building, age, and pupil enrollment. This program was funded in FY 1993-94 at $1.1 million.

V. TEACHER RETIREMENT

Funding in 1993-94: $22.5 million (4.9% of total state school aid).

Description: In Delaware, school district employees are state employees and participate in the regular state pension system. The employee contributes to the system as follows:

Effective January 1, 1987, employee contributions to the Fund shall be either three percent of total monthly compensation in excess of $500, plus two percent of that portion that exceeds the amount determined by dividing social security wage base by 12 percent.

State and Local Shares: The state contributes to the pension system based on the state share of the salary and the local districts contribute on the locally funded portion of the salary. For 1993-94, the rate is approximately 10.6 percent. It is estimated that the State contributed approximately $22.5 million to the pension system for teachers in 1993-94. Local districts pension contributions approached $7.4 million.

Social Security

The State pays FICA on the State share of salaries at an estimated cost of $16.7 million. The school district share of FICA is estimated at $5.7 million.

VI. SPECIAL EDUCATION

See Section II — Basic Support Program.

VII. COMPENSATORY EDUCATION

See Section II — Basic Support Programs and Section X — Regular Elementary/Secondary Programs, Basic Skills Unit.

VIII. GIFTED AND TALENTED EDUCATION

See Section X — Student Advancement Programs.

IX. BILINGUAL EDUCATION

The State does not provide funding for bilingual programs except through its Basic Support Program.

X. OTHER CATEGORICAL PROGRAMS

Regular Elementary/Secondary Programs

Funding in 1993-94: $17.1 million (3.7% of total state school aid).

A program that provides an academic excellence unit, driver education, and substitute teachers.

Privately Operated Programs

Funding in 1993-94: $2.0 million (less than 1.0% of total state school aid).

A collection of programs operated by private agencies for the benefit of public school pupils.

Special Needs Programs

Funding in 1993-94: $6.2 million (1.3% of total state school aid).

A collection of programs providing services beyond the basic unit structure for handicapped students.

Adult Programs

Funding in 1993-94: $3.4 million (less than 1.0% of total state school aid).

A collection of programs primarily aimed at adults to provide job training, skills, and a high school education.

Education Monitoring, Advancement Programs, and Teacher Training Program

Funding in 1993-94: $2.6 million (less than 1.0% of total state school aid).

Programs in this group deal with curriculum improvement, restructuring, and assessment of education programs and teacher improvement.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Delaware provides aid to private schools in two areas — driver education and pupil transportation.

In Delaware, a person must be 18 years of age to obtain a driver's license unless they have completed a course of driver's education in which case the minimum age is 16 years. Delaware provides driver education to students of nonpublic schools by employing teachers hired by public districts to teach in nonpublic schools. A teacher is provided for each 125 tenth-grade students, the same as in public schools.

Delaware provides reimbursement to eligible nonpublic school pupils for transportation. The public school eligibility requirements of one mile for elementary students and two miles for secondary students apply to nonpublic pupils. The reimbursement is determined by dividing the number of eligible pupils into the annual appropriation. In 1993-94, approximately 14,200 pupils received about $200 each as reimbursement for transportation.

XII. EARLY CHILDHOOD EDUCATION

See Section X — School Readiness Programs.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax that funds schools. A local school district in Delaware may levy taxes on property for four reasons:

Current Expense — provides the local share of school district salaries and other school needs. This tax requires passage of a referendum to establish a tax rate. The referendum is held only when there is a need to increase the tax rate.

Debt Service — provides funds to pay the principle and interest on outstanding bonds. Districts must pass a referendum to authorize the issuance of bonds.

Tuition — provides funds to pay a district's share of special programs for students that attend countywide special programs. No referendum is required.

Minor Capital Improvements — provides funds to match state appropriations for the repair and maintenance of schools. This tax does not require a referendum but the proceeds can only be used to match a state appropriation.

In 1993-94, these taxes generated about $162.7 million in revenue.

In Delaware, assessment is the responsibility of county government and practices vary among the three counties.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Since a high percentage of the cost of education is borne by the State and because referendum is required for the bulk of local school taxes, there is no imposed taxing limit.

Spending Limits

Delaware school districts may not operate at a deficit.

Voter Approval of Budgets and Bond Issues

There is a bonding limit that requires that no school district may bond itself for more than ten percent of its assessed value. Because the state pays a high percentage (60 to 80 percent) of the cost of school construction, this bonding limitation has not caused a burden in Delaware.

Voters must approve, via a referendum process, bond issues that are required for the local share of school construction and renovation projects. The success rate for these capital referenda is about 75 percent and close to 100 percent on the second attempt. Failure of a bond referendum means that the project will not be undertaken. School districts may schedule only two referenda for purpose per 12 month period.

School budgets as such do not require voter approval. Increases in local tax rates for current expense do require passage of a referendum by simple majority.

XV. EARMARKED STATE REVENUES

In Delaware, there are no particular categories of funding earmarked for education. All state fund revenues for schools come from the State General Fund.

XVI. SPECIAL TOPICS

There has been no attempt as of this date to initiate either a voucher system or school choice program in Delaware. There has not been any discussion or action on privatization of public education.

The state is currently embarked on an educational reform movement called New Directions for Education in Delaware. The primary focus of this program is the setting of rigorous standards at the state level; curriculum design, development, and implementation to meet these standards is the responsibility of local districts and comprehensive assessment is the responsibility of the state.

FLORIDA

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I. GENERAL BACKGROUND

State

- Funding for Florida public education from both state and local sources has increased in real dollar terms since the initiation of the Florida Education Finance Program (FEFP) in 1973-74. However, the total funding from the state has decreased from nearly 72 percent in 1973-74 to nearly 62 percent in 1993-94.
- The FEFP, which can be defined as a highly modified foundation plan, is characterized by a relatively high percentage of state aid largely driven by a weighted per-pupil formula. In providing equalization of educational opportunity the FEFP formula recognizes: (1) varying local property tax bases, (2) varying program cost factors, (3) district cost differentials, and (4) differences in per-student cost for equivalent educational programs due to sparsity and dispersion of population.
- The FEFP bases financial support for education on the number of students participating in a particular educational program. The FEFP funds are primarily generated by multiplying the number of full-time equivalent students (FTEs) in each of the educational programs by cost factors to obtain weighted FTEs. Weighted FTEs are then multiplied by a base student allocation and by a district cost differential in the major calculation to determine the state and local FEFP funds (F.S. 236.081). Program cost factors are determined by the Legislature and represent relative cost differences among the FEFP programs.

- State funds for public school support are provided primarily through the FEFP. In addition, more specific educational needs are financed through categorical funding and special allocations. The major source of revenue for state support of public schools is the state sales tax.

Local

- Florida has 67 fiscally independent school districts based on county boundaries, each of which participates in the FEFP. Each district must provide evidence of its effort to maintain an adequate school program throughout the district.
- Local revenue used to support schools is derived almost exclusively from *ad valorem* property taxes. In fact, no local nonproperty taxes are levied specifically for support of schools. Although not provided for in statute, a few school districts receive local county sales tax revenues. All local school districts are required by statute to apply a specified millage rate to the aggregate assessed property value as a part of the required local effort provision of the FEFP. The millage rate for each district is computed annually as the product of an equalization factor times the aggregate assessed property value in the district.

Funding Summary, 1993-94

Total State School Aid (All Programs[1])		$5,378 million
Grants in aid	4,734 million	
Teacher retirement contributions[2]	621 million	
FICA (Employer Paid)	23 million	
Total Local School Revenue		$3,531 million
Property tax revenue	3,323 million	
Other local source tax revenue	<1 million	
Local source non-tax revenue	208 million	
Total Combined State and Local School Revenue		$8,909 million
State Financed Property Tax Credits Attributable to School Taxes	0	

[1] All programs except capital outlay. See section IV.

[2] Total Teacher Retirement Contributions (State & Local) = $1,002 million.

II. THE BASIC SUPPORT PROGRAM

Florida Education Finance Program

Funding in 1993-94: $5,010 million (93.2% of total state school aid).

Nature of Program: Foundation. The Florida Education Finance Program (FEFP), authorized in F.S. 236.081, is a highly modified foundation plan.

Allocation Units: Pupils. Expressed as full-time equivalent (FTE) pupils based on average daily membership.

Local Fiscal Capacity: Equalized assessed property valuation.

How Formula Operates: Funds distributed to each school district through the FEFP are calculated by first multiplying the FTE of each specific educational program by the program cost factor as established by the Legislature. The resultant weighted FTEs are multiplied by the base student allocation, set at $2,501.05 by the Legislature for 1993-94. This product is then multiplied by the district cost differential. Supplemental allocations may be added to this figure, depending on district eligibility. These include the declining enrollment, sparsity supplement, and the hold harmless adjustment. When all eligible supplements are added, the result is the total state and local FEFP dollars.

The required local effort of the district is then subtracted, resulting in the state FEFP dollar figure. Prior year adjustments may then be made, resulting in the net state FEFP dollars to be provided to the district.

The amount of state and local moneys for each school district is determined in the following manner:

> The full-time equivalent student membership in each program; multiplied by the cost factor for each program; multiplied by the base student allocation; multiplied by the district cost differential factor; plus the declining enrollment supplement; plus the sparsity supplement. These supplemental allocations are discussed later.

The categorical program funds are added and any special allocations due are provided. Categorical programs are discussed in detail later in the chapter.

State Share: The state share of the FEFP is determined annually through legislative appropriation. The base student allocation, times weighted FTE, minus required local effort for all districts equals the aggregate net FEFP dollars provided by the state. The base student allocation is determined annually by the Legislature. For the 1993-94 fiscal year, the base student allocation was $2,501.05.

Local Share: The required local tax effort in property taxes for calculation of district required local effort millages for the 1993-94 fiscal year was set by the Legislature at $3,098.1 million in the Appropriations Act. Using the certified 1993 tax roll from the Department of Revenue, the Commissioner computed and certified the required local effort millage rate for each district. In calculating the FEFP for the 1993-94 fiscal year, each district's deduction for the required local effort will be the certified millage on 95 percent of the nonexempt assessed valuation of the district. In the event that this millage would produce more that 90 percent of a district's total FEFP entitlement, the Commissioner was directed to adjust the district's rate to produce 90 percent.

The amount produced by applying the average computed required local effort millage rate of 6.542 to the tax roll certified July 16, 1993, was adjusted by an equalization factor for each district (F.S. 236.081(4)(b)). The millage rate resulting from the application of this equalization factor was added to each district's required effort millage rate as an additional required local effort rate for equalization. The summation of these two rates became each district's total required local effort certified millage rate.

Each school board must levy the millage set for its required local effort. Based on the 1993 tax roll provided by the Department of Revenue, the Commissioner of Education certified the required millage of each district. Certifications varied from 6.947 mills to 6.418 mills due to use of assessment ratios designed to equalize the effect on the FEFP of differing levels of property appraisal in the counties. A limitation that local required effort not exceed 90 percent of a district's total FEFP entitlement reduced three districts required local effort, with one district as low at 5.081 mills.

School boards may set discretionary tax levys of the following types:

1. *Capital Outlay and Maintenance.* School boards may levy up to two mills for construction and remodeling; site and site improvement; auxiliary or ancillary facilities; maintenance, renovation, and repair of existing school plants; and school bus purchases. Payments for lease-purchase agreements for educational facilities and sites are authorized in an amount not to exceed one-half the proceeds of the millage levied under this authority. Proceeds may also be used to repay loans used for these authorized purposes.
2. *Current Operation.* The Legislature limited discretionary current operation millage for 1993-94 to no more than .510 mills.

In addition to the board-set levy, qualified electors may vote an additional millage levy for operation and capital outlay purposes for a period not to exceed two years. Tax levys for debt service are in addition to the levys for current operation but are limited by State Board of Education rule to six mills and 20 years duration except with specific State Board approval. Qualified electors may vote for a local bond issue to be retired by a millage levy. State Board of Education rules prohibit school districts from issuing school bonds in excess of ten percent of the nonexempt assessed valuation of the district without specific State Board approval.

Budget revenue from local taxes and local required effort are based on applying millage levys to 95 percent of the nonexempt assessed valuation of property.

Weighting Procedures: The FEFP recognizes cost differences based on grade level in addition to programs of instruction. Program cost factors are intended to assure that each program receive funds in relation to its relative cost. Through an annual program cost report, districts report the cost of each program. The cost per FTE of Basic Grades 4-8, was established as the 1.000 base. The Legislature has adopted a three year averaging methodology in computing cost factors. This protects districts from rapid changes in program cost factors. Multiplying the FTE for a program by its cost factor produces the "weighted FTE." Program cost factors established for use in 1993-94 are shown as follows.

Cost Factors for 1993-94:

Basic Programs	
Kindergarten and Grades 1, 2, and 3	1.017
Grades 4, 5, 6, 7, and 8	1.000
Grades 9, 10, 11, and 12	1.224
Mainstream	
Grades K-3	2.034
Grades 4-8	2.000
Grades 9-12	2.448
Programs for at-Risk Students	
Dropout Prevention	1.615
Intensive English/ESOL K-3	1.600
Intensive English/ESOL 4-8	1.617
Intensive English/ESOL 9-12	1.454
Exceptional Student Programs	
Educable Mentally Handicapped	2.214
Trainable Mentally Handicapped	2.899
Physically Handicapped	3.398
Physical & Occ. Therapy, P-T	10.664
Speech, Language, & Hearing, P-T	5.392
Speech, Language, & Hearing	3.130
Visually Handicapped, P-T	15.773
Visually Handicapped	4.309
Emotionally Handicapped, P-T	3.851
Emotionally Handicapped	2.807
Specific Learning Disability, P-T	2.816
Specific Learning Disability	1.998
Gifted, P-T	1.841
Hospital & Homebound, P-T	12.114
Profoundly Handicapped	4.386
Adult General Education Programs	
Adult Basic Skills	.721
Adult Secondary Education	.758
Adult Disabled	1.140

Vocational-Technical Programs

	Job Preparatory		Adult
	7-12	Adult	Supplemental
Agriculture	1.710	1.455	1.614
Business & Office	1.235	1.267	1.190
Distributive	1.124	1.354	.827
Diversified	1.204	.847	—
Health	1.439	1.429	1.432
Public Service	.969	1.011	1.161
Home Economics	1.247	1.383	1.356
Industrial	1.740	1.361	1.463
Exploratory (grades 6-12)	1.238	—	—
Vocational Mainstream	1.979	—	—

Additionally, the Legislature has established the following combination of programs:

Group Program	Group Title
1	Basic, except K-8 Summer School
2	Dropout Prevention Intensive English/ESOL Exceptional Student K-12 Vocational K-8 Basic Summer School
3	Adult Preparatory Vocational Adult Supplemental Vocational Adult General

Program groups 2 and 3 are "capped" in that a district will receive prorated funding for any weighted FTE in either group that exceeds the amounts established for that district in those program combinations (groups). These caps are established based on each district's estimate of FTE in each FEFP program. District estimates are reviewed and approved by a state enrollment estimating conference. The district estimated FTE in each program is multiplied by the program's cost factor and the resulting weighted FTE aggregated by program group in the group cap.

High schools that have no less than 28 students and no more than 100 students in grades 9-12 and that are no closer than 28 miles to the nearest high school, and whose students score no less than the higher of the district or the state average on both parts of the High School Competency Test, may use a weight of 2.75 for all FTE in grades 9-12. Such schools are to serve students primarily in Basic Programs and may include At Risk Student Programs. The district must levy the maximum discretionary operating levy.

Districts that offer Visually Handicapped (PT) services for themselves or for a multi-district area in which there are five or more students receiving the services are guaranteed 3.0 unweighted FTE.

A value of .24 FTE shall be reported for each score of three or higher achieved on each College Board Advanced Placement examination by a student in a district-taught Advanced Placement class of the prior year. A value of .24 FTE is to be calculated for each student enrolled in an International Baccalaureate course who receives a score of four or higher on a subject examination. A value of .3 FTE is to be calculated for each student who receives an International Baccalaureate diploma. This bonus FTE is to be Added to the Basic, Grades 9-12 program. A value of .24 FTE or the actual Calculated FTE, whichever is closer to actual district cost, shall be reported for each score of three or higher achieved on each College Board Advanced Placement examination by a student in a public college-taught Advanced Placement class of the prior year. A student in a public college-taught Advanced Placement class shall not earn any current year full-time equivalent student membership for the class.

Adjustments for Special Factors: Several adjustments and supplemental allocations are included in the FEFP formula. These include the following:

1. *District Cost Differential.* The district cost differential used to adjust each district's FEFP allocation in based upon an average of the previous three years of the Florida Price Level Index and determined by the Executive Office of the Governor. This averaging tends to reduce the immediate impact of sudden changes in the index. These three year averages are adjusted as per statute (F.S. 236.081(2)). The 1993 Legislature provided that district cost differentials be indexed so that the lowest value was 1.000. District cost differentials range from the low of 1.000 to a high of 1.2279.

2. *Declining Enrollment Supplement* (total state funding $900,912 in 1993-94). Districts with a decrease in unweighted FTE from the prior year are provided an allocation. The declining enrollment allocation for 1993-94 was determined by comparing the unweighted FTE in 1993-94 to the unweighted FTE of the prior year. In those districts where there is a decline in unweighted FTE, 50 percent of the decline is multiplied by the prior year's calculated FEFP per unweighted FTE and added to the allocation of the district. For this purpose, the calculated FEFP was computed by multiplying the weighted FTE by the base student allocation and then by the district cost differential. There was a provision that 85 percent of any decline in FTE membership resulting from transfer of programs from a school district to another institution shall not be counted in calculating the district's declining enrollment entitlement.

3. *Sparsity Supplement* ($20 million). An allocation is provided to districts with fewer than three senior high school centers and an unweighted FTE of 19,000 or less as discussed herein. The formula accounts for the increased expenses of smaller districts through a statutory formula in which the variable factor is a sparsity index. This index is computed by dividing the FTE of the district by the number of permanent senior high school centers (not to exceed three). By appropriations participation is limited to districts of 19,000 or fewer FTE. Each eligible district's allocation is subject to an adjustment for relative wealth of the district. This adjustment is based on per FTE value of the Maximum discretionary levy in the district relative to the state average. If the district Value per FTE exceeds the state average, then the sparsity entitlement is negatively adjusted by an amount equal to the district's FTE multiplied by the per FTE amount which the District's maximum discretionary value per FTE exceeds the state average.

4. *Hold Harmless* ($86 million). The hold harmless adjustment provides each district with a 2.937 percent minimum increase in funding relative to 1992-93 funding on a weighted FTE student basis. The calculation includes state FEFP, major categorical funds, discretionary lottery funds, local required effort taxes and fees, and discretionary tax proceeds.

Aid Distribution Schedule: The FEFP is calculated five times for each year's appropriation. These calculations are as follows:

1. First Calculation. This calculation is completed immediately after the annual legislative session. Districts' allocations for July are distributed on this calculation.

2. Second Calculation. This calculation is made upon receipt of the certified tax roll from the Department of Revenue as provided for in statutory language (F.S. 236.081(4)(1)). District allocations for July 26 through December 10 are distributed on this calculation.

3. Third Calculation. This calculation is made upon receipt of the district's October FTE surveys reported in November. District allocations for December through March are distributed on this calculation. (Districts' July and October FTEs are summed and an annualization is made based on previous year's trend of February and June compared to July and October surveys).

4. Fourth Calculation. This calculation is made on receipt of the districts' actual February FTE surveys and estimated June FTE surveys reported in March. District allocations for April 26 through June are distributed on this calculation.

5. Final Calculation. This calculation is made upon receipt of the districts' actual June FTE surveys, usually reported in July. Prior year adjustments in the following fiscal year are made, based on a comparison of this final

calculation to the Fourth Calculation. Adjustment are calculated and applied as prior year adjustments at this time.

Districts Off Formula: None, all 67 Florida school districts participate in the FEFP.

III. TRANSPORTATION

Funding in 1993-94: $241 million (4.5% of total state school aid).

Description: Students are eligible for state funding as follows: (1) students who live two miles or more from school; (2) students who are physically handicapped or enrolled in a teenage parent program regardless of the distance to school; (3) students who are transported from one school center to another to participate in special programs; i.e., vocational, dual enrollment, or programs for exceptional students (except gifted); (4) students whose grade level does not exceed grade six but are subjected to hazardous walking conditions; and (5) students in a state pre-kindergarten early intervention programs regardless of distance from school.

State Share: The process of computing the state contribution for student transportation is as follows:

1. An entitlement based on February and October data is calculated for students transported, considering a 180-day school year. The average of these two periods is usually greater than the state appropriation. Consequently, the final amount allocated to each school district is prorated.

2. The calculation of the entitlement noted is made by multiplying the students transported for the period by the "allowable per student cost."

3. The "allowable per student cost" is based on the following formula:

   $$A/N + B = \text{allowable per student cost}$$

   N = the density index of the district

   A and B are constants calculated by the State Department of Education using the concept of least square regression (actual expenses plus the cost of bus replacements) are divided by the number of eligible students in each district to determine the actual costs per student. This amount is plotted with the density ratio. The amount at the top of the slope line is A and the amount at the bottom of the slope line is B (F.S. 236.083).

4. The density index noted is calculated as follows:

   Density Index = (number of students transported) / (eligible bus route mileage)

   Districts with an actual computed density index of less than 1.7 are adjusted upward to 1.7 and those districts with an actual density index greater than 4.7 are adjusted downward not to exceed 4.7. Consequently, the density indices always fall between 1.7 and 4.7.

5. Bus route mileage is computed by adding one-half of round trip route mileage required to transport students to and from school along with 50 percent of the bus route mileage without students. Steps 1 through 5 describe the basic allocation of state funds. Adjustments are made, however, for:

   - students transported during summer school
   - students transported by passenger cars
   - students transported using general purpose transportation systems of local governments

State statute provides a mechanism for school bus replacement. However, school bus replacements were not funded for 1993-94. State participation in school bus replacement is in accordance with the following:

Step 1. On July 1 of each year, a determination is made of the number of buses in active daily service. This is accomplished through a survey in October and February of the prior fiscal year.

Step 2. The number of buses to be replaced is ten percent of the average in active service from the October and February survey.

Step 3. A determination is made of the cost of "diesel-powered school bus of 65 passenger capacity," F.O.B. factory.

Step 4. The funds needed for bus replacement are calculated by multiplying the number of buses in Step 2 by the estimated replacement cost in Step 3.

Step 5. Since the total state appropriation is normally less than the funds needed to replace ten percent of the buses in Step 4, the state funds are allocated to each school district on the proportion that each district's need is of the total need.

Step 6. The Department of Education coordinates a statewide voluntary pool purchase bid for school buses needed by participating school districts. The actual types of buses purchased may vary from the 65 passenger diesel type, such as buses with accommodations for the handicapped.

Local Share: All costs related to student transportation in a given district not covered by transportation funding from the state or federal aid for transportation are borne by the local district.

Extent of Participation: All 67 districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Funding in 1993-94: $544 million

Description: At the state level, revenues for capital outlay are provided from taxes on utilities. Impact fees and lease-purchase arrangements are permissible. Capital outlay aid under the Public Education Capital Outlay Funds (PECO) and Capital Outlay and Debt Service (CO & DS) are allocated for K-12 public education as well as higher education. State bonds for legislatively authorized projects are issued by the State Board of Education. (Funds for Special Facilities construction are allowed via a process, which may be expended for only one project in a district and as approved by a state committee after requests from districts with special capital outlay needs and are judged as not meeting the needs through the normal funding procedures.) The PECO expenditures are allocated via a formula. Additionally, certain revenues from the licensing of motor vehicles are allocated to school districts for capital outlay funding and debt service.

A sinking fund is managed by the State Board of Education, which issues capital outlay bonds. These bonds are repaid through district CO & DS allocations. Districts are required to conduct five-year surveys of capital outlay requirements and to create a long-range plan using that survey. Districts submit a budget for capital outlay with expenditures specified from each project from all available sources.

Additionally, local sources for public school capital outlay are available. The first of these utilizes taxes levied based on voter approved millage rates. These levys may occur for only two years for a maximum of two mills. The second method allows levys of up to two mills without election. Funds obtained through this method may be used for lease-purchase agreements. With appropriate intergovernmental agreements school districts may utilize local impact fees. The largest local fund source is the Local Capital Improvement Fund, which provides for bond issue repayment from local property taxes.

Local Capital Project Financing

See discussion above.

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993-94: $621 million (11.5% of total state school aid).
$381 million local contribution

Description: Teacher retirement benefits are provided for under the Florida Retirement System. The system is a non-contributory plan. Contributions to the system are required of the employer and are set at a rate of 17.71 percent of members' gross compensation which includes .56 percent of each member's gross salary for a health insurance subsidy contribution to be deposited in the Retiree Health Insurance Subsidy Fund. The Legislature annually appropriates an amount sufficient to make the necessary payment to the Florida Retirement System. Any deficit is appropriated from the general revenue of the state.

State and Local Shares: The Florida Retirement System for school district employees is fully funded at 100% by a combination of state and local dollars. Districts pay 100 percent of the employer share.

Extent of Participation: All 67 districts.

Social Security

Funding in 1993-94: $23 million in state and local dollars

Description: The state allocates to each district an amount of state and local dollars per weighted FTE student from which the district pays the employers share of social security costs.

State Share: The state share varies from district to district depending on the ratio of state to local funds under the finance formula.

Local Share: The balance is provided by local funds.

Extent of Participation: All 67 districts.

VI. SPECIAL EDUCATION

Funding in 1993-94: Revenue for the support of exceptional student education is determined through the Florida Education Finance Program funding formula.

Description: The number of students in any of the 16 special education programs is multiplied by a program cost factor for the specified program. The product is a "weighted full-time equivalent" and is multiplied by the base student allocation ($2,501.05) and represents state aid in support of exceptional student education. Exceptional student programs and the respective cost factors were as follows:

Educable Mentally Handicapped	2.214
Trainable Mentally Handicapped	2.899
Physically Handicapped	3.398
Physical & Occ. Therapy, Part Time	10.664
Speech, Language, & Hearing, Part Time	5.392
Speech, Language, & Hearing	3.130
Visually Handicapped, Part Time	15.773

Visually Handicapped	4.309
Emotionally Handicapped, Part Time	3.851
Emotionally Handicapped	2.807
Specific Learning Disability, Part Time	2.81
Specific Learning Disability	1.998
Gifted, Part Time	1.841
Hospital & Homebound, Part Time	12.114
Profoundly Handicapped	4.386
Mainstream	
Grades K-3	2.034
Grades 4-8	2.000
Grades 9-12	2.448

State and Local Shares: No distinction is made between state and local shares. See Section II for discussion on state and local shares for the FEFP.

Extent of Participation: All 67 districts.

VII. COMPENSATORY EDUCATION

The state provides no categorical funding for compensatory education. State funds are provided for drop-out prevention as part of the state formula.

VIII. GIFTED AND TALENTED EDUCATION

Gifted and talented education is a component of Exceptional Student Education (special education).

IX. BILINGUAL EDUCATION

Funding in 1993-94: Funding for bilingual education is part of the state's foundation program.

Description: Bilingual education is one of the programs for at-risk students. The number of students in any of the three bilingual programs are multiplied by the program cost factor for the specific program. The product of the calculation is a "weighted full-time equivalent" factor and is multiplied by the base student allocation ($2,501.05). Bilingual programs and the respective cost factors are as follows:

Intensive English/ESOL K-3	1.600
Intensive English/ESOL 4-8	1.617
Intensive English/ESOL 9-12	1.454

State and Local Share: No distinction is made between state and local shares. See Section II for discussion on state and local shares for the FEFP.

Extent of Participation: All 67 districts.

X. OTHER CATEGORICAL PROGRAMS

Description: Categorical and special allocations are added to the FEFP funding formula allocation and are distributed among the eligible school districts. The allocation is designed to assist in development and maintenance of activities giving direct support to the FEFP. There were categorical and special programs funded by the legislature. These included community schools, school lunch, instructional materials, student transportation, blue print for career preparation, pre-school projects, pre-school partnerships, full service schools, early childhood services, coordinating council, Migrant 3 & 4 year olds, Florida First Start, Third Party Evaluation, public school technology, instructional strategies/technology, summer inservice institutes, education business cooperative, cities in schools, programs of emphasis, interagency cooperation, and lottery enhancement. Funding for the largest programs was:

Preschool Projects	$ 78.6 million
Instructional Materials	79.4 million
Instructional Technology	55.0 million
Lottery Enhancement	483.5 million
Student Transportation	240.6 million
School Lunch	17.6 million

State and Local Shares: No distinction is made between state and local shares. Section II for discussion on state and local shares for the FEFP.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $78.6 million (less than 1.0% of total state school aid).

Description: Pre-kindergarten education is part of categorical and special allocations. Children who have attained the age of three years on or before September 1 of the school year are eligible for admission to prekindergarten early intervention programs.

State and Local Shares: No distinction is made between state and local shares.

Extent of Participation: All 67 districts.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the major source of local revenue for public schools. In 1993-94, property taxes generated approximately $3.3 billion. Based on the 1993 certified tax roll, the Commissioner of Education computed and certified the required local effort millage rate for each school district. In calculating the FEFP for the current fiscal year, each district's deduction for required local effort was the certified millage on 95 percent of the nonexempt assessed valuation of the district. In the event that the millage rate produced more than 90 percent of a district's total entitlement, the district's rate was adjusted to produce 90 percent.

The amount of revenue produced by applying the average computed required local effort millage rate of 6.543 mills to the tax roll was adjusted by an equalization factor for each district. The millage rate resulting from application of the equalization factor was added to each district's required local effort millage as additional required local effort for equalization.

All real estate and tangible personal property are assessed at just value. Farm land when used for bona fide agricultural activities, is valued solely based on agricultural usage. The county property appraiser is responsible for determining the value of all property within the county.

Income Tax

The state does not allow local districts to collect an income tax or income tax surcharge.

Other Sources of Local Tax Revenue

With approval from the local county commissioners, school boards may seek with voter approval an addition one cent local option sales tax. Motor vehicle tax is returned to the school district as state revenue.

Tax Credits and Exemptions

The state constitution provides for an $25,000 homestead exemption on residential property. Federal, state, public school, church, and parks properties are not included on the tax roles

XIV. TAX AND SPENDING LIMITS

Tax Limits

The Constitution of the state of Florida limits the non-voted property tax rate to ten mills (Florida Constitution Art. IX). In addition, each school board may levy a non-voted current operating discretionary millage. The Legislature annually prescribes the millage rate not to exceed 1.6 mills or 25 percent of the required local effort. (F.S. 236.25(1)). School boards may levy up to two mills toward the nonexempt assessed valuation to fund capital projects. The state Constitution prohibits a state income tax.

Spending Limits

School districts are limited by the state Constitution for expenditures for educational purposes only. Section 237.34 FS sets forth minimum expenditure requirements where revenue is generated as follows:

1.	Kindergarten and grades 1, 2, and 3	90%
2.	Grades 4-8	80%
3.	Grades 9-12	80%
4.	Special programs for exception students	80%
5.	Special vocational-technical,adult-general education, At-Risk programs and any "new" programs approved by the legislature	80%

School districts are limited to short time borrowing by issuing notes for anticipation until the receipt of current funds (F.S. 237.151).

School districts may incurr an obligation to alleviate a major emergency at an existing school to prevent additional damage or eliminate safety hazards (F.S. 237.162).

Voter Approval of Budgets and Bond Issues

Voters do not approve budgets. The budget is approved by the local board in accordance with state law. Voters must approve debt extending more than one yearA bond referendum must be approved before the sale of General Obligation Bonds. A district can place a referendum on the ballot once every six months (F.S. 236.42).

XV. EARMARKED STATE REVENUE

Thirty-eight percent of the revenue generated from the state lottery was earmarked for education enhancement.

XVI. SPECIAL TOPICS

None.

GEORGIA

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I. GENERAL BACKGROUND

State

- In 1986, the Quality Basic Education (QBE) act replaced the Adequate Program for Education In Georgia (APEG) that had been in place since 1975. Under QBE, the state financial support for public education increased dramatically. More than $908.9 million in new state funds were appropriated under QBE for the 1986 fiscal year over the funds appropriated under APEG in 1985.
- State funds for public elementary and secondary schools come primarily from state sales and income taxes.
- In 1992, Georgia voters approved a state lottery. Lottery funds are used to supplement rather than supplant other state educational funding sources.

Local

- The state has 182 school systems. Of these, 159 are fiscally independent county district systems, and 23 are fiscally dependent city school systems. In addition, there are 16 Regional Educational Service Agencies (RESAs) and 24 regional psychoeducational centers.
- The implementation of QBE substantially increased the amount of money local school systems had to contribute for participation in the program. Whereas, APEG required a local contribution equivalent to a levy of about 1.25 mills on a 40 percent assessment of nonexempt local property, QBE requires a local effort equivalent to a five mill levy.

Funding Summary, 1993-94

Total State School Aid (All Programs)[1]		$3,268 million
Grants in aid	3,185 million	
Teacher retirement contributions[2]	5 million	
FICA	0	
Total Local School Revenue[3]		$2,155 million
Property tax	2,007 million	
Other local source tax revenue	138 million	
Local source non-tax revenue	10 million	
Total Combined State and Local School Revenue		$5,423 million
State Financed Property Tax Credits Attributable to School Taxes[4]	N.A.	

[1] Includes 62.75 million in lottery funds for education and 15.64 million in capital outlay funds.

[2] Teacher retirement and health insurance funds are included as part of the base funding under QBE and separate appropriations were not made except for managers of transportation, school food service, maintenance, and warehouses who chose to transfer to the teachers' retirement system from the public school employees retirement system.

[3] Local school revenue amounts are for 1992-1993.

[4] Although Georgia does utilize homestead exemptions for property tax relief, this figure was not available.

II. THE BASIC SUPPORT PROGRAM

The Quality Basic Education Program

Funding in 1993-94:

QBE Basic Formula: $3,100 million (95% of total state school aid).
Equalization: $144.9 million (4.4% of total state school aid).

Nature of Program: Foundation. The Quality Basic Education (QBE) program is a foundation program, with a power equalization component, that annually guarantees a financial support base per weighted full-time equivalent pupil (Ga. Code § 20-2-160).

Allocation Units: Pupils. Weighted Full Time Equivalent (FTE). State funding is allocated based on full-time equivalent (FTE) program counts for each local school system. The State Board of Education designates two specific dates, one in the fall and one in the spring, on which counts of students enrolled in authorized programs are made. School districts determine students' specific assigned programs for each one-sixth segment of the school day on the designated reporting dates. Authorized programs are assigned relative weights according to assumed costs of those programs in comparison to the high school general education base program. The total value of one-sixth segments for which each student is enrolled in an authorized program is determined. This number is divided by six to calculate the average FTE on that designated date. The fall FTE is counted twice, and the spring FTE is counted once, with the total divided by three to calculate the annual average FTE.

Local Fiscal Capacity: Equalized assessed property valuation.

How Formula Operates: For each local school system, the basic program entitlement for support of programs under QBE is determined by multiplying the weighted FTE pupil counts by the guaranteed financial support base. In 1993-94, the guaranteed financial base was $1,638.66 per weighted pupil.

In addition to the basic program entitlement, the state subsidizes districts below the 90th percentile in property wealth per pupil that generate local revenues above those required for the QBE. For each 3.25 adjusted mills (or an equivalent amount of local funding from other sources) above five, the state transmits the difference between the amount of money generated and the amount of money that would be generated by the district at the 90th percentile in property wealth per pupil. This process "district power equalizes" each 3.25 mills of local effort above five. An adjusted mill is one that has been weighted to compensate for error in property assessments (for example, if property is assessed at 20 percent of fair market value, rather than the required 40 percent, each mill would be multiplied by two to compensate for the under assessment).

State Share: The state share of the basic support is determined in two parts. The first part is equal to the difference between a district's basic entitlement and the district's fair share. The second part is equal to the amount of funding under the state's district power equalizing plan. The total state share is equal to the sum of these two parts.

Local Share: Each district's required local effort of QBE, or local fair share, is equal to the amount of revenue that would be generated by a five mill property tax rate on assessed property equalized at 40 percent of true market value. The local fair share totaled $614.2 million in 1993-94.

Technically, local districts are not required to levy the five mill local fair share, but are required to generate the amount of revenue that would be raised by the five mill levy. This money could be generated through gifts or any other means that is legally permissible. However, all districts levy more than the required 5 mills and raise more revenue than required by the state from local sources.

Weighting Procedures: The program weights used in funding QBE for the 1993-94 school year are as follows:

(1)	Kindergarten	1.34022
(2)	Primary Grades (1-3)	1.25569
(3)	Upper Elementary Grades (4-5)	1.01916
(4)	Middle Grades (6-8)	1.02268
(5)	High School General Education (9-12)	1.00000
(6)	High School Nonvocational Labs (9-12)	1.23203
(7)	High School Vocational Labs (9-12)	1.35151
(8)	Category I Special Education (Self-contained specific learning disabled and self-contained speech-language disordered pupils)	2.28468
(9)	Category II Special Education (Mildly mentally handicapped pupils)	2.63872
(10)	Category III Special Education (Behavior disordered, moderately mentally handicapped, severely mentally handicapped, resourced specific learning disabled, resourced speech-language disordered, self-contained hearing impaired and deaf, self-contained orthopedically handicapped, and other self-contained health impaired pupils)	3.34465
(11)	Category IV Special Education (Deaf-Blind, profoundly mentally handicapped, visually impaired and blind, resourced hearing impaired and deaf, resourced orthopedically handicapped, and resourced other health impaired pupils)	5.37905
(12)	Category V Special Education (Intellectually gifted pupils)	1.60647
(13)	Remedial Education	1.30975

Adjustments for Special Factors: Adjustments to the basic funding program are made for: (a) pupils enrolled in programs that are not eligible for funding; (b) contracts between local systems; (c) the training and experience levels of local teachers; (d) systems operating middle schools as defined by the state; (e) changes in pupil counts; (f) sparsely populated school systems; (g) English to speakers of other languages; and (h) special instructional assistance.

Noneligible Programs. Under QBE, some courses and activities are specifically excluded from funding. Specifically excluded from funding are: study halls, noncredit courses, courses that do not devote a major portion of time to competencies adopted by the Georgia Board of Education, courses that require competitive participation in an extracurricular activity, service as a pupil assistant unless the activity is an approved career or vocational education work program, individual study courses without outlines of course objectives, courses requiring fees or tuition of resident pupils, and courses requiring fees or tuition in excess of the local costs per pupil of nonresident pupils.

Contracts Between Systems. Some Georgia school districts contract with other districts to educate some of their pupils. The district in which the pupil resides usually pays the receiving district an amount of money to help defray the local cost of educating that pupil. Under these circumstances, unless adjustments are made, the sending and receiving districts' local contribution per pupil would be distorted. To remedy this situation, the property wealth per pupil figures and consequently the equalization grants for both the sending and receiving district are adjusted. The pupil is included in their district of residence in the calculation of property wealth per pupil, but are then also counted in the district where they attend school when the amounts of equalization grants are calculated.

Training and Experience of Teachers. The funding entitlements of local school districts are initially computed based upon each teacher in each district having the equivalent of a bachelor's degree and no teaching experience. For those teachers exceeding these minimum requirements, adjustments are made to reflect their "guaranteed" salaries under the state supported schedule of minimum salaries for teachers. These adjustments are reflected in each district's entitlement for funding under QBE.

Middle Schools. An incentive grant of an additional 13 percent of the basic QBE entitlement is granted for local systems that operate middle school programs according to criteria established by the Georgia Board of Education. Grades 6, 7, and 8 are eligible for funding under this incentive grant. The programs are required to include organized teacher teams with common planning times, emphasis on basic skills reinforcement, and preparation for high school content, as well as course options that emphasize individual development and transition into adolescence.

Size. The minimum sizes required for full support under QBE are 3,300 full-time equivalent pupils for school districts, 450 full-time equivalent pupils for elementary schools, 625 full-time equivalent pupils for middle schools, and 970 full-time equivalent pupils for high schools. Since QBE funding is based of FTE pupil counts, school systems below these minimum sizes receive funding reflecting a pro-rata portion of full funding for district level resources and services such as superintendents, secretaries, visiting teachers, and accounting services. Similarly, schools below minimum sizes receive state support for a pro-rata portion of support services such as those provided by principals, media specialists, secretaries, and assistant principals.

Pupil Counts. Because the QBE formula is based on pupil counts taken in previous school years, school districts with growing pupil populations need to have their funding adjusted for current pupil counts. Adjustments are made in January for changes in pupil counts from the previous year for districts with increasing pupil populations. Districts with increasing pupil counts receive proportionally more money. However, districts with decreasing pupil counts continue to receive the amount of funds calculated from the pupil counts from previous years.

Consolidation. Local districts that consolidate with other local districts are not required to finance any portion of state approved construction or renovation costs brought about because of the consolidation. If a local school of less than the base size specified is consolidated with another school containing the same grade levels so that the new school is larger than the specified base size or represents 100 percent of the local district's student population in approved grade levels, the local district is required to pay only half the normal local share for any state-approved construction or renovation project. The state pays all of the eligible facilities costs for consolidation of schools across district lines. There are two special conditions for receiving financial incentives for consolidation of schools or school systems. One is that no student would be required to travel a greater distance or time than permitted by state board policy. The second condition is that all schools eliminated by consolidation continue to be used for educational purposes, if practical.

Sparsity. Under certain conditions, school districts may be eligible for special financial assistance because of sparsely populated areas. One, the district must be unable, due to sparsity, to offer a full QBE program to all or some of its pupils. Two, consolidation or merger within and between districts would not create schools or districts of sufficient size for QBE or would result in excessive travel time for pupils. Three, the district must have attempted to consolidate with another district, but the other district rejected the offer. If any of these three conditions exist, the Georgia Board of Education will cause a study to be conducted to determine if consolidation is feasible and if not, to determine what additional resources are needed. Based on the results of this study, the district will receive additional funds to operate the school in the sparsely populated area. Every five years the study must be conducted again. If a district is to remain eligible for sparsity funding, then it must not reject an offer to consolidate with another school district.

Aid Distribution Schedule: Funds for program entitlements under QBE are distributed to local school systems in 12 equal monthly payments.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $126.8 million (3.88% of total state school aid).

Description: Pupils who reside more than 1.5 miles from the school in the attendance area to which they are assigned are provided free transportation to and from school. In addition, handicapped pupils are also provided free transportation (Ga. Code § 20-2-188).

State and Local Shares: Local school systems are provided funding for students transported on routes and buses determined by the Georgia Department of Education as necessary for the eligible students. The state pays replacement amounts to local school systems of 7.2 percent, 10 percent, and 12.5 percent, depending on the bus size and equipment, in addition to compensating for drivers, insurance, and operating costs. Current operational expenditures exceeding the amount allotted by the state are borne by the local school system. For example, many systems transport students who live within the 1.5 mile walking distance. These pupils are transported entirely at local expense.

Extent of Participation: 179 districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Funding in 1993-94: $15.6 million (less than 1.0% of total state school aid).

This is the K-12 portion of the general obligation bonds issued by the state for capital outlay, and includes $1.1 million for public library construction.

Description: In order to participate in the state's facilities financing plan, each local school system must develop a long range facilities plan that identifies all improvements and new construction needed to provide adequate facilities for: (1) the number of students projected for the end of the upcoming five-year period; (2) the educational programs the system plans to provide; and (3) their architect's cost estimates for providing these facilities. The school system's proposed facilities plan is then reviewed by a comprehensive survey team comprised of educational leaders prior to approval by the State Board of Education. Facility plans must include — at a minimum — all of the facilities required to deliver all funded QBE programs. Each school system earns state funds annually to assist them in meeting the construction needs identified in their facilities plan. The amount of state funds earned annually by each school system is based on each system's identified needs in relationship to the total needs identified by all school systems and the program authorization level set by the General Assembly each year. Annually, each school system may choose to allow the earned funds to accumulate until some later date or to submit an application to utilize funds earned plus their required local matching funds to complete the construction needs identified as the next priorities in their facilities plan (Ga. Code § 20-2-260).

State and Local Shares: The cost to each local system is based on its ability to pay as determined by its property wealth per pupil. The wealthiest system is required to pay no more than 25 percent of the eligible construction costs while the poorest system is required to pay 10 percent of the eligible construction costs. The state pays the remainder of the eligible costs.

Extent of Participation: 70 districts.

Local Capital Project Financing

The bonding capacity of each local school system is determined by the value of the taxable property within the system. No district may issue bonds in excess of ten percent of the value of the property within the system. In order for a bond issue to be passed, a majority of the people voting must approve the bond referendum. The state provides no funds for direct repayment of any bonds issued by a local school system. However, the system may receive debt service credit and may earn state funds as a part of their identified facilities need if the proceeds from the local bonds issued are used to meet construction needs identified in the system's facilities plan.

V. TEACHER RETIREMENT

Funding in 1993-94: $4.9 million (less than 1.0% of total state school aid).
This is a separate appropriation for classified administrative personnel.

Description: The teacher retirement plan is funded as part of the basic QBE program and is available to all public school teachers and other certificated personnel employed by local school systems who participate in the plan. The QBE funding amount for retirement is not calculated separately. Entitlements are computed based on program weights for children in different cost programs.

The amount of funding shown here is for classified school administrators participating in the state's teachers' retirement system. The teacher retirement plan also makes provision for including some Georgia Department of Education personnel and employees of the University System of Georgia.

State and Local Shares: The teacher retirement plan is financed by individual contributions of six percent of salaries and employer contributions of 11.81 percent of salaries provided for in the QBE formula. QBE teacher retirement entitlements are disbursed directly to the local school system, that in turn pay the teacher retirement system.

Extent of Participation: 182 districts.

VI. SPECIAL EDUCATION

Funding in 1993-94: $278.8 million (8.5% of the total state school aid).
(Amount shown is included in the QBE Basic Formula funding of $3,100 million.)

Description: The state provides a comprehensive special education program ranging from programs for children at birth through four years old with severe handicapping conditions to programs for the profoundly mentally handicapped through age 21 (Ga. Code § 20-2-152).

State and Local Shares: Special education programs are funded as part of the QBE program and do not require additional local contributions. However, districts funding these programs beyond the QBE level are responsible for the excess costs.

Extent of Participation: 84 districts.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: $110.3 million (3.38% of total state school aid).
(Amount shown is included in the QBE Basic Formula funding of $3,100 million.)

Description: There are two compensatory education programs operating in Georgia public schools — the special instructional assistance program and the remedial education program.

The special instructional assistance program is limited to pupils in grades K-5 who are identified as having developmental lags that result in difficulty performing to expectations of children their own age.

The remedial education program is limited to children who are significantly below their grade placement in academic achievement. In grades 2-5 and in grade 9, eligibility is based on standardized test scores of the 25th percentile or below in mathematics or reading. Students in grades 10 and above are eligible if their scores on the state required Basic Skills Test in mathematics, reading or writing are below the scores required for graduation from high school (Ga. Code §§ 20-2-153, 20-2-154).

State and Local Shares: Both the special instruction assistance and remedial education programs are funded as part of the QBE act and do not require additional local contributions. However, districts funding these programs beyond the QBE level are responsible for the excess costs.

Extent of Participation: 182 districts.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $40.0 million (1.2% of total state school aid).
(Amount shown is included in the QBE Basic Formula funding of $3,100 million.)

Description: Special programs are funded for intellectually gifted pupils. The maximum district average class size for pupils in these programs is 14.5 in the elementary grades and 18.5 in the high school grades (Ga. Code § 20-2-152).

State and Local Shares: The programs for the intellectually gifted are funded as part of the QBE act and do not require additional local contributions. However, districts funding these programs beyond the QBE level are responsible for the excess costs.

Extent of Participation: 182 districts.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $7.5 million (less than 1.0% of total state school aid).
(Amount shown is included in the QBE Basic Formula funding of $3,100 million.)

Description: Special instructional assistance is provided for pupils whose native language is not English. The program is designed to help these pupils to develop fluency in English including listening, speaking, reading, and writing (Ga. Code § 20-2-156).

State and Local Shares: The bilingual program is funded as part of the QBE act and does not require additional local contributions. However, districts funding these programs beyond the QBE level are responsible for the excess costs.

Extent of Participation: 32 districts.

X. OTHER CATEGORICAL PROGRAMS

In-School Suspension

Funding in 1993-94: $20.9 million (less than 1.0% of total state school aid).
(Amount shown is included in the QBE Basic Formula funding of $3,100 million.)

Description: The in-school suspension program is designed as an alternative to suspension or expulsion for seriously disruptive pupils. These students are typically placed in locations isolated from other pupils where they are expected to follow strict rules of behavior. They are also expected to continue their regular classroom assignments and are given intense instruction designed to remediate deficiencies in basic academic skills. As part of the QBE program each district was entitled to funds to support one teacher for grades 6-8, and one teacher for grades 9-12 (Ga. Code § 20-2-155).

State and Local Shares: The in-school suspension program is funded as part of the QBE act and does not require additional local contributions. However, districts funding these programs beyond the QBE level are responsible for the excess costs.

Extent of Participation: 177 districts.

Professional Staff Development

Funding in 1993-94: $28.4 million (less than 1.0% of total state school aid).
(Amount shown is included in the QBE Basic Formula funding of $3,100 million.)

Description: Funding for staff development is provided for teachers and other local system employees to correct identified weaknesses, gain skills in areas needed by the system, and to improve individual competencies (Ga. Code § 20-2-182).

State and Local Share: Staff development programs are funded as part of the QBE act and do not require additional local contributions. However, districts funding these programs beyond the QBE level are responsible for the excess costs.

Extent of Participation: 182 districts.

Regional Educational Service Agencies and Psychoeducational Centers

Funding in 1993-94: $7.1 million (less than 1.0% of total state school aid).

Description: Sixteen Regional Educational Service Agencies (RESAs) provide local districts with assistance in the following areas: planning and research, staff development, curriculum and instruction, assessment and evaluation, and electronic technology. Each of the 16 RESAs is governed by a local board of control, one-third of whose members must not be educators or holders of public offices. Eight RESAs are fiscal agents for the psychoeducational centers in their districts and the local systems are fiscal agents for the remainder of the centers (Ga. Code § 20-2-270).

State and Local Shares: RESAs are funded as part of the QBE act and do not require additional local contributions for basic services; however, each board of control may establish fees for additional services.

Extent of Participation: 175 districts.

Severely Emotionally Disturbed Children

Funding in 1993-94: $33.6 million (1.1% of total state school aid).

Description: These funds are appropriated for those severely emotionally disturbed children who need services that cannot efficiently be provided by local school systems. The programs supported by these funds are provided by the 24 psychoeducational centers (Ga. Code §§ 20-2-152, 20-2-270, 20-2-274).

State and Local Shares: This is a state appropriation and requires no matching local funds. The funds are appropriated directly to the regional psychoeducational centers or through local fiscal agents to the centers.

School Lunch

Funding in 1993-94: $24.3 million (less than 1.0% of total state school aid).

Description: These funds are distributed to local school districts based on the number of meals served, efficiency (as determined by a productivity formula), and special supplements for food service managers (Ga. Code § 20-2-187).

State and Local Shares: There is no required local contribution for participation in this program.

Extent of Participation: 182 districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $36.3 million (1.2% of total state aid).

Description: Beginning in 1993-94, lottery revenues were specifically earmarked by law for new educational programs including pre-kindergarten education. Supplanting of other funds with lottery funds was prohibited.

XIII. LOCAL SCHOOL REVENUE

In 1992-93, local school systems raised approximately $2,155 million in local funds to support educational programs.

Property Tax

The primary sources of local revenue are property taxes and special purpose local sales taxes. Although local systems are not required to generate the local contributions for participation in QBE from local property taxes, most do.

The local property assessment ratio is 40 percent of the current fair market value. To insure equity in assessment practices, sales/assessment studies are conducted annually by the Georgia Department of Audits. These ratio studies are used in determining local fair share contributions for QBE purposes.

Income Tax

Not allowed.

Other Sources of Local Source Tax Revenue

Local school boards have the option of asking local voters to approve local sales taxes for special purposes. These sales taxes are to be used for special purposes and are of limited duration. When the purposes change or the initial time limits expire, the taxes can only be extended by another referendum.

Tax Credits and Exemptions

Homestead Exemption

Based on 40 percent assessment rates, homeowners are provided a $2,000 exemption. The elderly are entitled to homestead exemptions ranging from $4,000 to $10,000 depending upon age and income. Totally disabled veterans are entitled to exemptions of up to $38,000. For fiscal year 1993, these exemptions totaled about $6.5 billion in property value.

XIV. TAX AND SPENDING LIMITS

Tax Limits

The Georgia Constitution imposes a limit of 20 mills per dollar on local property taxes for education, except for school systems that were authorized to levy a higher tax rate on June 30, 1983. The 20 mill limit may be increased or removed upon approval of a majority of the qualified voters voting on the proposed increase or removal of the 20 mill limitation (Ga. Const. Art. VIII, § VI).

Spending Limits

Districts may spend above the Quality Basic Education Program foundation level. Total district spending is limited by constitutional tax limits and local referenda.

Voter Approval of Budgets and Bond Issues

Independent local school systems may levy millage rates of up to 20 mills without direct approval of the voters. Rates above 20 mills require approval by a majority of the voters in local referenda. School systems that are fiscally dependent must have their budgets approved by another agency. In most cases, fiscally dependent school systems operate under the control of local boards of county commissioners.

XV. EARMARKED STATE REVENUE

Beginning in 1993-94, lottery revenues were specifically earmarked by law for new educational programs including pre-kindergarten education, computer instruction, distance learning, media and library equipment, Next Generation Schools, post secondary options programs, educational technology centers, Safe Schools grants, Learning Logic sites, algebra classrooms, and drug and anti-violence education programs. Supplanting of other funds with lottery funds was prohibited.

XVI. SPECIAL TOPICS

In the first full fiscal year following the establishment of a state lottery, $280 million in new revenue was generated for public education. State lottery funds have provided additional financial support for the K-12 public schools, and for an expansion of educational opportunities in the pre-kindergarten and higher education programs. It is anticipated that pre-kindergarten programs will be available in every county in the state by the end of the 1994-95 school year.

Georgia's new "Hope Grant" program established the state as a national leader in promoting higher educational opportunities by paying for two years of tuition at any Georgia public college, university, or technical institute, if the student maintains a "B" average and has under $100,000 in family income. Georgia's Governor intends to expand the program to support four years of tuition for eligible students.

HAWAII

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I. GENERAL BACKGROUND

- Hawaii has a unique governance structure for public education, a single statewide school district. Likewise, the system of financing public education is different than any other state. The two major differences are:
    1. No property tax funds are levied to support education.
    2. There is no constitutionally or legislatively prescribed formula for allocating funds to schools.
- The elected Board of Education has no independent authority to raise funds to be used for either operational or capital improvements. The funds for the operation of the public schools are determined by the legislature on a biannual budget basis and are actually disbursed by the Governor.
- State support for the operation of the public schools comes from the general fund, which is the repository for all non-earmarked taxes. The major taxing sources in 1991 were the General Excise Tax, which raises 47 percent of the revenues, Personal Income Tax, 33 percent, Corporate Income Tax, four percent, Accommodation Tax, three percent, and approximately 13 percent is raised from a variety of special taxes such as the inheritance tax, a tax on banks and corporations, liquor, various license fees, and other use taxes. All of these monies accrue to the state general fund and are disbursed by actions of the state legislature. All of the funds from the federal government (Chapters I and II, impact aid and special education money, for example) also are deposited in the state general fund and are considered as a part of the appropriation for public education.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: Total State Appropriation: $688.9 million
Expended: $677.2 million

Nature of Program: Full State Funding.

Allocation Units: Does not apply.

Local Fiscal Capacity: Does not apply.

How Formula Operates: Since all of the funding for public education is of state actions, perhaps the best method to portrait it is by describing the process. In this case, clearly "the mode is the measure of power."

The "players" in the process are:

The Board of Education. The Board of Education has the constitutional responsibility to "formulate policy and exercise control over the public school system," but has no power to tax nor allocate general fund monies. Its major function in the allocation process is to present to the Governor an advisory budget they perceive is necessary to operate the public schools of the state. The Board, or its members, occasionally lobby for aspects of the allocation budget later in the process.

Governor. The Governor has the constitutional responsibility to present a balanced biannual budget to the legislature. To carry out this function, he receives the advisory budget from the Board of Education and each of the other state departments. The Department of Budget and Finance (B&F), a part of the executive branch, assists in the budget endeavor by forecasting the tax revenues for the upcoming biennium and creating an asking budget that is balanced.

The state of Hawaii uses a program budget format, which means that all of the activities of each department are budgeted under one of several level III programs. (There are 5 programs in the D.O.E.) The budget is arrayed by department, which is level II, and by program within the department, which is titled level III. Within each program, the operating budget is predicated on 3 categories of funds.

1. *Current services:* These are funds allocated in prior budgets to a particular program. Once an item (unless specified by the legislature as non-recurring) has received an appropriation in a biannual budget it becomes a permanent item in subsequent budgets. Each of the current services workload items, which is expressed in dollars, is increased in each succeeding budget by an amount projected by B&F as sufficient to adjust for economic growth. Each program has a personnel position cost that designates the number of employees (permanent) that can be or are employed to carry out the functions. The B.O.E. cannot hire additional personnel for any program unless authorized by legislative appropriation, and an approved permanent position count.
2. *Workload increases:* This part of the budget is to allocate additional funds, if necessary, to carry out the activities that have been budgeted in the previous section (1) for increased numbers of students. In the case of the B.O.E. more dollars for more teacher positions for "EDN 105 Regular Instruction" would be allocated if, for instance, student enrollment in the system had increased during the previous year.
3. *Programs:* This part of the budget is to fund new initiatives of the various departments of the government. If, for instance, the B.O.E. wishes to develop a new or different instructional method, guidance program, or a new alternative education program for a sub-population of students, the funding and new positions would be budgeted in this part of the asking budget.

Another asking budget is developed for capital improvements. In Hawaii, this might include anything from remodeling a room in a school to building a school. Typically, money is allocated in three phases — planning, site preparation, and construction and furnishings.

The Governor's budget, which invariably differs significantly from the advisory budgets of the various departments, is forwarded to each house of the legislature prior to the session, which begins on January 20th of each year.

Legislature. When the Governor's budget is transmitted to the legislature, it is distributed to the appropriate subject matter committees. There is an Education Committee in both the House and the Senate. The chair of the committee reviews the Governor's budget, receives a copy of the B.O.E. advisory budget, and spending initiatives from interested legislators (which are entered as spending bills). The chair then holds hearings on the various aspects of the budget. During these hearings there is little or no debate on the Current Services budget (as this has a tendency to be considered as permanent funding), likewise the workload increase gets little scrutiny. Included in these categories of expenditure are an estimate of the federal funds for the various programs that receive federal dollars, a total of about 13 percent of the total operating budget.

The majority of the committee debate occurs around the third aspect of the Governor's budget — New Programs — as well as items from the original B.O.E. budget that did not survive into the Governor's budget and a variety of money appropriation bills that had been introduced by various legislators. At the conclusion of these hearings, the chair of the committee in each house submits to the Speaker of the House, or the President of the Senate their recommended appropriation for education for the biennium. The recommendation includes a specific amount to be expended for each of the programs in education (EDN). Within the program budget, funds are earmarked for specific projects, including the "pet" projects of legislators that may not have appeared in either the B.O.E. or the Governor's budget.

The recommended appropriations from all departments of the government are then forwarded to the "money committees," i.e., House Ways and Means and Senate Appropriation where each committee crafts its version of the state budget. Since they never agree, a joint committee hearing is held (mostly in closed session). The New Program items for education often are substantially different after the hearing than prior to it. Amounts that had been in all of the preceding phases of the allocation procedure are occasionally changed. Some items are deleted and new items (or old ones thought dead after the Education Committee deliberations) often appear. When the Appropriation Bill is passed by the legislature the Department of Education (D.O.E.) knows how much has been allocated by the legislature to expend each year of the biennium [Art. VII Sec. 8 Hawaii State Constitution].

Governor. The Governor may line item veto appropriations but has not done so during the past 20 years. However, even after signing the biannual appropriation bill, the Governor can still regulate the expenditure of education funds. The statutes require the Governor to maintain a balance between the quarterly tax revenues and the expenditures. To assist, the Department of Budget and Finance (B&F) makes a forecast of the revenues for each upcoming quarter. An "independent" body called the Council on Revenues, which is appointed from among bank economists and others, also make an estimate. When these estimates are less than projected expenditures, the Governor can withhold money previously appropriated by the legislature [Chap. 37 H.R.S.].

The Department of Budget and Finance has the authority to determine where the cuts will be made. They often decide on reduction or elimination of a particular project or a freeze on hiring certain personnel. Thus, a new money item in education may make it through the appropriation process and still not be funded due to action by the executive branch. There is no formal appeal route to protest the cuts made by B&F. During FY 1993-94, the restriction amounted to $20 million of appropriated funds for the Department of Education or approximately three percent of the total available appropriation.

There is no provision in the statutes to allow the Department of Education to borrow money through issuance of bonds or warrants. Thus, the amount appropriated by the legislature and released by the executive branch is the maximum that can be expended [Art. VII Sec. 4 Hawaii State Constitution].

There is also a constitutional expenditure limit. The appropriations in any budget cycle cannot exceed the estimated rate of growth in the state economy. The restriction is for the entire appropriation bill so it may or may not affect the funds appropriated for the Department of Education [Art. III Sect. 9 Hawaii State Constitution].

Thus, the D.O.E. does not know precisely the funds they have to expend until they receive notice of action taken by the executive branch on the funds previously appropriated by the legislature.

During the 1994 legislature session the legislature passed legislation that tended to restructure the Department of Education. Included were several sections that have finance implications, particularly in areas of budget making and resource allocation. The intent of the bill is to decentralize the curriculum, and, to a certain extent, the allocation of resources to the school level. The introduction to the legislation has several statements which signal the direction that the legislature appears to wish to pursue.

> Systemic reform cannot and will not be achieved overnight. Hawaii's top-down tri-level school management system has been in place for decades. It is a statewide system that encompasses school districts and school complexes within districts that are distinctly different and are progressing at varied speeds toward school based management. Restructuring must be viewed as a gradual process with changes occurring on a continuum culminating with schools fully functioning as independent learning units.
>
> The current budget format of the public education system has obscured funding decisions concerning individual schools. Under this structure the division of funds among the schools has been an administrative process, outside of public view and beyond public control. Funds are dissipated in a burgeoning administrative bureaucracy and there is no clear accounting of how much money reaches the schools for instruction and activities that directly affect students and learning.
>
> The schools must assume control of personal and fiscal resources to determine the curriculum and instructional needs of their students.

The statute goes on to delineate a number of changes to facilitate this major restructuring effort. From a resource allocation perspective, three major changes will occur:

1. The Board of Education "shall have power in accordance with law to formulate statewide educational policy, adopt student performance standards, monitor school success and appoint the superintendent."

"The superintendent shall be the chief executive officer of the public schools having jurisdiction over internal organization, operation and management of the school system. The superintendent shall sign all drafts for the payment of monies." Thus previous management functions of the board are transferred to the superintendent.

2. The budget structure is changed into two major categories: (a) administrative expenses will include matters such as state, district (or other regional administrative costs), business services, personnel services, planning and evaluation, communication and public relations and (b) instructional expenses, which include operation and maintenance of school facilities, instructional personnel, school level administration, food and health services, curriculum development, and training and other instructional expenses. In future budgets, these two must be presented separately, and the administrative expenditures shall not exceed 6.5 percent of the total department operating budget; nor can the Department of Education transfer funds from instructional expenses into administrative expenses.
3. The legislature amended Chapter 296 H.R.S. to achieve more budget and allocation flexibility at the school level by mandating an operating budget preparation and allocation process which shall provide maximum flexibility to individual schools, complexes, and learning support centers in the preparation and execution of their operating budgets.

The Department of Education and the Board of Education have, at least partly, anticipated this legislation by creating a document called, Department of Education Budget Execution: *Procedures and Guidelines for Allocations and Expenditure Plans, Fiscal Year 1993-94.* The term given to this procedure is generally called Lump Sum Budgeting.

Prior to this set of guidelines, the Department of Education, through its district offices, had allocated monies to each school, based upon a set of school-level programs. Schools had little or no ability to shift money from one program to another. The Lump Sum Budgeting concept (and the statute cited above) changed the allocation to schools to one lump sum allocation for "B" (supplies) and "C" (equipment) funds so schools have the flexibility to move funds around among programs to best meet their needs.

In the past, the Office of Budget and Finance (in the Governor's Office) had allocated monies to the Department of Education on a quarterly basis, and the Department of Education had allocated to schools on the same basis. If schools did not spend their monies, which were allocated by program, in that quarter, the funds reverted back to the Department of Education and if not spent by the end of a fiscal year, they reverted to the state general fund. The new guideline allocates funds on a yearly basis, thus there would be no quarterly lapses. The legislature passed an act that allows the schools and the Department of Education to carry over unused funds from one fiscal year to the next, so there are no longer year end lapses.

Twenty-eight programs in EDN 101 (Regular Instruction) are eligible for lump sum budget such as class size relief, science and music equipment, school priority funds, environmental education, etc. Approximately 100 other school programs were not eligible to have money shifted to other programs. Perhaps future legislative action will make it possible for additional categorical programs to be shifted to lump sum.

In addition, the Department of Education enacted regulations that would allow schools to purchase additional personnel in schools or exchange vacant positions for additional "B" and "C" funds (supplies and equipment). The statute authorizing these expenditures is more fully described in the section of this chapter entitled Student Centered Schools.

A final reform enacted by the 1994 legislature created a new class of schools called Student Centered Schools. The legislation created a new Part of Chapter 296 H.R.S. and is designed to give greater flexibility to up to a total of 25 public school to implement innovative programs and administrative frameworks to best serve the needs of their students. When a school decides to become student centered, it establishes its own local school board, which has representation from the principal, instructional and support staff, parents, students, and the community. The board creates a plan that includes a description of the framework, specific student outcomes, governance structure, assessment mechanisms, and an annual financial and program audit.

When it has been reviewed by the Board of Education (state), the local board is exempt from state school regulations (except statewide student performance standards), can establish its own collective bargaining unit, and govern the school in its own framework. No tuition can be levied on students who attend one of these schools.

To finance the operation, each school shall receive an allocation of state general funds equal to the statewide per pupil expenditure based upon average daily attendance. The 1993-94 per pupil cost is listed at $5,400.

This part of the statutes is a major departure from the statewide single school district that has been the norm for over a century in Hawaii. As of this writing, no schools have yet sent a student centered school plan to the Board of Education.

[Author's Note: The Department of Education has requested the State Attorney General to review this section of the statute. There is concern that the statute may violate sections of the Hawaii State Constitution as well as federal statutes as they relate to handicapped children. The Governor has signed the bill into law, but he might rule this section to be inoperable because it conflicts with other statutes, etc. This would allow the legislature to amend the Student Centered Schools section to make it conform to other laws: At this writing, the Attorney General has not rendered an opinion.]

Programs Funded

Some of the EDN programs funded are:

Program	*Allocation*	*Expended*	*Balance*
EDN 100 School Based Budget	$531,071,796	$522,202,092	$8,869,704
EDN 200 Instructional Support	25,056,730	24,623,330	433,400
EDN 300 State & District Admin.	38,532,143	38,466,254	65,889
EDN 400 School Support	67,773,058	65,760,994	2,012,064
EDN 500 School Community Service	25,459,067	25,168,198	290,869
Total Per General Appropriation Act	$687,892,794	$676,220,868	$11,671,926

State Share: Full State Funding

Local Share: Does not apply.

Weighting Procedures: Does not apply.

Adjustments for Special Factors: Does not apply.

Aid Distribution Schedule: Does not apply.

Districts Off Formula: Does not apply.

III. TRANSPORTATION

AGS 808 Student Transportation

Funding in 1993-94: $22.4 million

Description: The total operating costs for providing student transportation is appropriated to the Department of Accounting and General Services. No money is appropriated to the Department of Education for that purpose.

Accounting and General Services (AGS) is responsible for either providing transportation service through its own vehicles and personnel or entering into contractual arrangements with private providers. Only about five percent of eligible students are involved in state operated transportation and approximately 95 percent of the students are transported by private providers. Neither the Board of Education nor the Department of Education has management role in this endeavor. The routing, maintenance, driver qualifications, etc. are all directed by AGS.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Capital Improvements

Funding in 1993-94: Completed or Under Construction $94.7 million.

Description: All capital improvement projects for the Department of Education must be approved by the legislature, and be part of the Capital Improvement Appropriation Bill. The technique used to get projects into the appropriation is similar to that used for all operating monies, which was described in Section II.

At present, all capital improvement projects are funded from current tax revenues. No general or special obligation bonds for education projects have been authorized by the state for at least the past 10 years. There are still some old bond obligations that had an interest and principal repayment of $335,222 in FY 1990-91 (amount not available for FY 1993-94).

In 1989 the legislature created a State Educational Facilities Improvement Special Fund [Act 386 H.R.S.] into which a portion of the state general excise tax is to be placed for a period of 10 years. An amount of $90 million per year is earmarked for capital improvements for education. The unexpended balance in each year shall be left to accumulate interest and is eligible for expending in succeeding years. Monies from the fund may only be expended for projects approved by the legislature of the state.

V. TEACHER RETIREMENT

Description: All teachers and other educational personnel of the public school district are members of the "Employee Retirement System of the State of Hawaii," which provides retirement benefits to all state and county employees.

There are actually two retirement plans in operation within the system. Prior to 1984, all employees paid 7.8 percent of their salary to the retirement system. In 1984, each employee could opt to continue to pay under the current system and be compensated at retirement on the basis of two percent of the average of the best three years of covered employment times the number of years of service. Or, they could opt to enroll under a non-contributory plan and be compensated on the basis of 1.25 percent of the best three years of service credit. Those employees who enrolled after January 1, 1985, were automatically under the non-contributory plan. Both are guaranteed payment plans. In addition, the state pays the total cost of the health insurance plan of each retiree.

The state pays the "employer" contribution to Federal Social Security.

The 1994 legislature, by the passage of House Bill 759, made a major change in the State Retirement System. The bill allows any employee with 25 years of service by December 31,1994, *regardless of age* (the statute previously required 30 years service and age 55 or 20 years and age 62 for normal retirement) to retire and be credited with two additional years of service. Teachers and UH employees who have the 25 years by December 31 cannot retire until June 30, 1995. This is a one time offer so employees must retire by December of 1994 (June 1995 for teachers and administrators) or they lose the two years credit. Also, employees who do not have 25 years by December 31 will never (unless the statute is amended in the future) receive the two-year credit.

The Department of Education may fill the positions vacated through this act (in other state departments, except UH 40 percent of the positions are to be eliminated). However, 20 percent of the statewide administrative positions in the Department of Education made vacant will be eliminated.

VI. SPECIAL EDUCATION

Funding in 1993-94: General Funds: $48.7 million
Expended General Funds: $48.5 million

Description: All funds allocated for the Exceptional Child Program (EDN 107) are appropriated by the legislature. Included in this program are provisions for instruction and related services for handicapped pupils during the regular school year and summer session. The gifted and talented programs provide a range of opportunities to enrich, accelerate, and challenge gifted and talented students.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: General Funds: $15.5 million
Expended General Fund: $15.3 million

Description: Compensatory Education (EDN 108) provides specialized services to educationally disadvantaged students, immigrant children with limited or non-English proficiency, alienated youth, and other target groups with educational problems.

VIII. GIFTED AND TALENTED EDUCATION

See Section VII — Compensatory Education.

IX. BILINGUAL EDUCATION

See Section VII — Compensatory Education.

X. OTHER EDUCATION INITIATIVES

The legislature has enacted statutes that are designed to encourage more school level control of a portion of the appropriated state funds. They are:

School Priority Fund

Chap 296-D H.R.S.

"It is the interest of the legislature that the school priority fund be used to provide the equitable distribution of educational resources statewide, to strengthen the scope of decision making and increase flexibility in resource allocation at the school level, and to provide a systematic method of conforming resource allocation to the unique needs and priorities of individual schools" [296-1].

The superintendent of education (Authors Note: no mention of the board of education) shall allot the money of the school priority fund to the school district based upon enrollment.

After a reserve for the district is withheld the balance of the monies shall be allotted to the schools based upon enrollment. School principals shall consult with teachers, parents, and students to solicit their advice on the use of the monies. The principal shall submit (to the district superintendent) a plan for the use of the money. When it is approved according to state guidelines the money can be expended [296-4]. At present the amount per pupil is set by the D.O.E. at $35.00 per pupil.

Special Needs Schools

In FY 1993-95 the Special Needs appropriation was earmarked to provide additional funding for four complexes with 23 schools in three districts that were identified as being low achieving schools. Each of the individual schools would receive $225 per student to be expended to improve the performance of the school. The requirements for expending the funds were similar to the statutory regulations cited in the Priority Funds legislation (see above). In each budget cycle one additional complex, with low-achieving schools, would be added at the cost of an additional three million dollars.

School Community-Based Management (S.C.B.M.)

296C H.R.S.

In FY 1990-91 the legislature recognized the concept of school-based management by stating "The legislature finds that efforts must be made to ensure the excellence of Hawaii's public schools. Changes in the way the State's single school system is managed, particularly by restructuring the system to allow for more educational decision making at the school level and thereby increasing the involvement of those directly affected by the decisions, should increase accountability, and result in the excellence we seek."

The department of education through the board of education and its superintendent shall formulate policies, including criteria and procedures to determine which schools shall participate in the system to initiate S.C.B.M.

As part of the rules that have been established an initial group of up to 30 schools would develop and present plans for S.C.B.M. including requests for waivers of certain D.O.E. regulations. When approved by the Board of Education each school would receive an $11,000 planning grant. At present, approximately 65 schools have submitted plans.

Staffing Assignments

For a number of years, each permanent employee of the state has been issued a position number. That number is assigned to a position in a department of the state. Once a position is assigned to a particular unit within a department, the department can only change the position to another unit by requesting a transfer to the Department of Budget and Finance. Likewise, if a position becomes vacant through resignation, retirement, or other cause. The department must fill the position in the same unit to which it was assigned.

[Author's Note: The short description above is somewhat simplified. Actually, the process is quite complex and time consuming.]

The legislature in 1993 amended this statewide act by two statutes, 296-15.6 and 296-15.7, to give the Board of Education and by further amendment in 1994 the Department of Education the right to reallocate vacant positions throughout the Department, to reassign employee duties, and authorize position classifications "without regard to position variance requirements of the Department of Budget and Finance. Further, in 15.7 the department can create new temporary positions for one year or less terms as long as it does not exceed its budget allocation.

The Department of Education has created rules and regulations which have become termed buying or selling a position in response to the statutory change.

A principal may buy a position by using current "B" and "C" money allocated to the school by the Department of Education. The term of the employment cannot exceed one year. The position purchased may be full or part-time. If it is a certificated position, the person must meet current employment and certification requirements and will be included in the proper bargaining unit.

A principal may sell only a vacant position. If a position is sold, it is for one year only. Selling will increase the "B" and "C" funds for the school.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Does not apply.

XIII. LOCAL SCHOOL TAX REVENUE

Does not apply.

XIV. TAX AND SPENDING LIMITS

Does not apply.

XV. EARMARKED REVENUE

See Section IV — Capital Outlay and Debt Service.

XVI. SPECIAL TOPICS

See Section II — Basic Support.

IDAHO

Rob Nicholson
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I. GENERAL BACKGROUND

State

- The current program, the Idaho Public School Foundation Program, has been in effect since 1978 without major changes in the formula since that time. Over the past several years, there have been several internal and external studies and recommendations to change the formula. Few were actually made, however.
- The Public School Foundation Program consists of a combination of state and local funds that are distributed according to an equalizing formula based upon attendance units designed to assure each school district with uniform funding per unit.
- The state share of the funding of public schools in Idaho has stayed relatively constant over the past ten years. With the passage in 1979 of a California Clone 1% Initiative, a shift of state funding, from about 38 percent then to better than 65 percent in 1991, has taken place as the legislature has replaced lost local property tax revenue with state funds. In contrast, the share of the state general fund budget appropriated for public schools has been on the decline since 1985. The fund competitor has usually been the Health and Welfare fund.
- State funds for the public schools come from the state's general fund: primarily state income tax and state sales tax revenues, as well as other dedicated funds — the most prominent of which is the Public School Endowment fund — which receives its revenue from rents, leases of state lands, and other similar sources. The appropriation is placed in what is called the Public School Income Fund for distribution according to the formula.
- Two groups of school districts have filed motions with the courts of Idaho asking that the funding formula be declared unconstitutional. One of the groups — known as the "Hallett" group — contends that the formula is flawed and asks the court to require the legislature to put in place a formula that reduces or eliminates the inequities identified in the action. The other case — known as the "Huntley" group — contends that it is not the formula that is causing the inequities in educational opportunity in Idaho, but rather that not enough money is being appropriated by the legislature and thus asks the court to ensure adequate funding in the future. In late 1991, both cases were consolidated by the district court with trial scheduled for February of 1992. The trial was delayed while legislators and plaintiffs attempted to work out an acceptable settlement. Following the 1993-1994 legislative session, an agreement was reached — see description later — and the suit was dismissed by the court.

Local

- There are 115 school districts, each financially independent.
- The local share of the program is determined by a legislated tax rate and the adjusted market value of the school district. The adjustment in market value is a homeowners exemption of 50 percent of the market value of a taxpayer's principal place of residence.

Funding Summary, 1993-94

Funding summary information was not provided.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: Information not provided.

Nature of Program: Foundation. The program assures each district of an equal dollar amount made up of both state and local funds per support unit.

Allocation Units: Support Units. There are six categories of "support units" defined in the formula. Each has a legislated divisor table from with the number of units is calculated. A district estimates its best 28 weeks of Average Daily Attendance (ADA) in each category, finds the proper divisor in the table, and calculates to two decimals and rounds to one to estimate the number of "support units" it will have funded in the next year.

Local Fiscal Capacity: Equalized assessed property valuation.

How Formula Operates: The formula is rather basic in operation and is shown below.

The Basic Foundation Program Formula:

Total Foundation Program = Number of Units x Unit Factor

State Share = Total Foundation Program − Local Share

Local Share = .0036 x Market Value

1993-94 Example District: where: Number of Units = 200;
Unit Factor = 42,874.62;
District Market Value = $406,518,288.

Total Foundation Program = (200 x $42,874.62) = $8,574,924.00

State Share = ($8,574,924.00 − $1,463,465.84) = 7,111,458.16

Local Share = (.0036 x $406,518,288) = $1,463,465.84

The unit factor is derived by the State Department of Education by taking the total funds available from state sources, subtracting out all of the categorical funds, adding in the local (statewide total) equalization figure and then dividing by the number of support units available.

Determining The Unit Factor:

Category	*1993-1994 Amount*	
1. State Appropriation		$560,123,900
General Account	$525,000,000	
Dedicated Funds	32,123,900	
Budget Reserve Fund	3,000,000	
2. Categorical Programs		$177,312,028
Transportation	$32,276,000	
Ancillary Services	36,394,500	
Border Contracts	1,000,000	
Exceptional Child, Tuition Contract	2,250,000	
Funding Floor/Adjustments	5,711,728	

	State Paid Benefits	96,729,800	
	Mentor Program	0	
	One-Time Acquisition	1,700,000	
	Grants To School Districts	250,000	
3.	State Funding Available (line 1 – line 2)		$382,811,872
4.	Local Share (St. Mkt. Val x.0036)		114,104,957
5.	Total Funds Available (line 3 + line 4)		496,916,829
6.	Estimated Number of Support Units		11,590
7.	1993-94 Distribution Factor (line 5 / line 6)		$42,874.62

State Share: The state share of the foundation program is equal to the total foundation amount minus the local share.

Local Share: In this equalized formula, each district is required to determine its local share of the foundation program by subtracting out a statewide uniform tax rate calculated against the district's market value. By law this rate is 0.36 percent. While the state expects that this amount will be charged as local property taxes, there is no requirement that the district actually levy that amount. Thus it is possible, and has happened, that the district will not collect as much as the state has subtracted and thus that district will not receive the full amount of the unit funding formula.

Weighting Procedures: Information on the legislated divisor table used to determine the number of support units was not provided.

Adjustments for Special Factors: There are two types of hold harmless — usually called "flooring" — provisions in the formula. One protects a district in case of a severe enrollment decrease and the other ensures that a district will retain state funding at essentially the same level as the year before if market value increases by an unusually large amount.

The enrollment "flooring" factor provides that for funding purposes, a district will not lose more than one percent of its support units from one year to the next. However, the actual number of units become the basis of funding for the following year. Thus the provision only protects a district for a single year.

Example 1: Enrollment Flooring Provision. A district that currently had 100 support units for funding purposes at the end of last year, loses enrollment over the next year so that by the end of the current year, it only has 95 support units. The flooring provision would require the district to calculate its funding for the current year by reducing each of the previous year's support unit categories by one percent and using that new total — approximately 99 rather than 95 — as the funding for this year. For the next year, the actual support units of 95 would be the basis for the flooring provision for the next year.

The state funding flooring provision provides protection for those school districts that either have a extraordinarily high market value or experience an unusually large increase in their market value from one year to the next. The state calculates the base support using the previous year's information and compares it to the proposed current year's calculations. If the previous year's funding per unit is higher, then that is what the district will receive for the current year.

Example 2: State Funding Flooring Provision. Two situations exist here. In at least one Idaho county (Blaine), which is the home of the Sun Valley resort area, the market value of the Blaine County school district is so large that when the equalization formula is applied, the local share exceeds the state share and thus would not receive any state funding for its district. This provision provides minimal funding for the district.

In the other case, it is possible that the market value of a school district may increase so much that the increase in the local share exceeds the increase supplied by the state's appropriation. In that case, when the per unit amounts are calculated for each year, the previous year's amount will provide more per unit and thus will be used for calculation of the current year.

The categorical add-ons will be discussed later.

Aid Distribution Schedule: The State Department of Education (SDE) distributes the state moneys to the various districts on dates that are set by the legislature. Those dates are August 15, October 15, November 15, February 15, May 15, and July 15. The first three payments are not based upon actual enrollment but rather upon the previous year's distribution ratio. The SDE determines the percentage of the previous year's total distribution that each district received and it is that percentage of the new year's distribution that the district receives in the first two payments.

The final three payments are based upon actual enrollment with the SDE calculating the number of units each district has and adjusting the payment with each payment. In the final (July 15) payment, the SDE is required to disburse all of the moneys that have accrued to the Public School Income Fund during that fiscal year. It is at this time that all final adjustments to the number of units or the unit factor will be made.

Each year some adjustments have to be made due to unanticipated enrollment increases or decreases. While most of the numbers are set by the legislation and don't change, the final best 28 weeks of enrollment is not determined until after school closes in June. Thus, the final number of units to use in the determination of the final unit factor will not be known until shortly before the final payment calculations are made.

Districts Off Formula: Information not provided.

III. TRANSPORTATION

Funding in 1993-1994: $32.3 million.

Description: Districts are reimbursed 85 percent of allowable costs of the previous year. Allowable costs are defined as those costs that are directly related to transportation of students to and from activities that are curriculum oriented. Districts that contract out their bus service are reimbursed at the same rate. Included in the amount is a bus depreciation allowance based upon the ages of the busses in each district.

State Share: The districts supply a listing of the allowable costs for the previous year and a listing of the cost and age of their busses. The state then determines the 85 percent to be reimbursed.

Local Share: The local district must fund all other transportation costs it incurs.

Extent of Participation: All districts participate.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Separate funding for these categories are not provided by the state.

Local Capital Project Financing

Each district may choose to expend a portion of its general maintenance and operation budget for these types of expenditures if they so desire.

School Plant Facilities Funds. School districts are authorized to create a School Plant Facilities Fund either by transferring General Fund moneys into it or by asking for a multi-year tax levy for funding. The multi-year tax levy requires a two-thirds majority to pass and must identify the types of expenditures for which the funds will be used. Under certain conditions, depending upon bonded indebtedness, the two-thirds majority may be lowered.

Bonds. School districts are authorized to submit to its patrons bond issues to build and furnish buildings. A two-thirds majority is required to pass any bond issue.

State Lottery Funds. Other state funds that go to public schools come from state lottery revenues. These funds are not part of the Foundation Program and must be used for capital outlay or expansion and may not be used for regular maintenance and operation. Fifty percent of the amount remaining after administrative costs of the lottery are deducted are distributed to the various school districts in the same ratio as each receives from the Public School Foundation Program. That is, if a school district receives 18 percent of the funds allotted in the Foundation Program, it will also receive 18 percent of the lottery money.

V. TEACHER RETIREMENT

State Paid Benefits

Funding: $96.7 million.

Description: All public employees working more than 20 hours per week are required to belong to the Idaho Public Employee Retirement System. The system is a defined contribution system and funding for the employer's share is subtracted from the total appropriation prior to the determination of the unit distribution factor.

The state pays the employer's share of both the retirement system — the Idaho Public Employee Retirement System Inc. (PERSI) — and social security for all school district employees. The payment for social security — including the Medicare percentage — is part of the categorical amount called "State Paid Benefits" that is subtracted out before the unit factor is determined. But, since the federal government requires that the actual employer pay the amount for each employee, this amounts to a reimbursement from the state to the district. On a monthly basis, each district reports to the SDE the amount it has paid in social security taxes and a check is issued by the state for that amount.

VI. SPECIAL EDUCATION

Funding: $36.4 million to reimburse salary plus Exceptional Education Support units at $42,874.62.

Description: All districts participate in this program, which is funded through the basic support program with additional support coming from the Chapter 1 Federal Special Education Program.

State Share: There are two methods the state uses to fund this program. The first reimburses the district for salaries for approved certificated and non-certificated positions within the district at a rate of 80 percent of the scheduled salary for the former and puts a maximum of $7,200 on the latter. Districts must submit an application describing the position for which reimbursement is requested, and only those positions approved are funded. In addition, one of the categories for support unit funding is the Exceptional Education Support Unit. Based upon the number of students that meet SDE rules, the number of support units for this category are determined and this money is provided through the distribution formula.

Local Share: The district assumes the remaining costs, if any, of this program.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

This program is handled within the Special Education Program.

IX. BILINGUAL EDUCATION

This program is handled within the regular language program or the special education program.

X. OTHER CATEGORICAL PROGRAMS

Border Contracts

Funding: $1.0 million.

Description: For any district that must place students in a school district in another state, a tuition contract is arranged for with the out-of-state district and the state pays the entire cost of that contract.

Exceptional Child and Tuition Equivalency Contracts

Funding: $2.25 million.

Description: Any district that contracts students out to other educational type facilities is entitled to apply to the state for reimbursement of those costs. If the contract is approved, the state assumes the entire cost of the contract.

One-Time Acquisitions

Funding: $1.7 million.

Description: The legislature appropriated moneys to be used for one-time expenditures for capital outlay, supplies and materials, building renovation, and other capital outlay type needs. A similar amount was appropriated to be distributed on a per student basis, but was not to be part of the funds distributed through the formula.

Funding Floor/Adjustments

Funding: $5.7 million.

Description: These funds are set aside to deal with the flooring provisions of the distribution formula and to make adjustments where estimates were shown to be incorrect early in the year.

Mentor Program

Description: Funding to provide developmental assistance to first year teachers and administrators. Districts apply for the funds based upon the number of first year teachers and/or administrators in the district.

Innovative Teacher Grants

Funding: $250,000.

Description: Individual teachers or groups of teachers were invited to submit applications describing various projects they would like to undertake and complete which would enhance their teaching. A committee appointed by the SDE screened the applications and determined those to be funded. Applications totaling over $5 million were received for the $250,000 available.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Not Applicable

XII. EARLY CHILDHOOD EDUCATION

Funding for this program is included in the Special Education Program described earlier.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Local financing of public schools come exclusively from the property tax. Districts are given three optional ways to determine what their local property tax charge will be. Those methods are:

1. Increase the tax charge by five percent;
2. Increase the tax rate by five percent and apply that against an estimated September market value;
3. Use the equalizing levy amount (Market Value X .0036).

Districts were allowed to assess the largest of these charges that did not exceed a maximum charge set by law of four-tenths of one percent (.4%) of Market Value.

Supplemental Levies. Local school districts are authorized to ask patrons to authorize "supplementary levies" by majority vote for any amount that exceeds the maximum described above. The amount raised by these levies is included in the local revenue total above.

Charter Districts. There are three "charter" districts that, while being legally required to follow the same rules as all other districts, have some additional rights depending upon the content of their "charter." These were school districts that were in place prior to the adoption of the Idaho constitution.

XIV. TAX AND SPENDING LIMITS

There are no state imposed limit upon spending by school districts. The only restriction on taxes is the maximum property tax that may be imposed without a vote of the patrons described in Section XIII above.

Voter Approval of Budgets and Bond Issues

Permissive Local Funding

School districts are allowed, under legislated conditions, to levy property taxes up to a maximum determined by law without a vote of the patrons of the district. The maximum is set at four-tenths of one percent (0.4%) of the district's market value. There is no requirement that a district levy any property tax in support of its schools. If a district decides it needs more than the maximum allowed, it must then put that issue before the patrons and receive a majority vote in order to certify and receive that amount.

XV. EARMARKED STATE REVENUE

The only earmarked state money comes from the Lottery described in Section IV above.

XVI. SPECIAL TOPICS

1994-1995 Amendments to the Public School Funding Formula

The 1994 Legislature, in an effort to settle the school funding lawsuit pending against it, passed amendments to the Public School Funding Formula as follows:

1. The local school district contribution calculation increased from 0.36% to 0.4% of Market Value.

2. The elementary support unit divisor for districts with more than 300 elementary students was reduced from 23 to 20 over a three-year period for pupils in grades 1-3.

3. A significant amount of state funds that could be used at the discretion of the district would now be set aside as a "salary allocation" based on a calculation driven by:
    a. a minimum number of staff;
    b. the education and experience of the certificated staff; and
    c. a base salary amount for each classification unit.

   Calculations are established for three classifications of staff: instructional, administrative, and classified.

   The amendments establish a procedure for determining minimum staff allowance, sets ratios that will be used in determining staff allowance, and excludes certain programs (school lunch, transportation, and federal programs).

   The proposal establishes a salary schedule index that is used to determine each school district's salary-based apportionment. All certificated staff are given credit for education and experience as the salary index for each school district is calculated. A staff information reporting system and reporting deadlines are also established.

4. The amendments outline a method of calculating each school district's salary based apportionment for each classification of staff setting certain limitations on school districts with high average salary schedule index calculations.

5. The amendments require each school district to be directly responsible for paying the employer's share of social security and public employees' retirement. School districts will be reimbursed for the employer's share of these payments based upon the salary based apportionment. Because some school districts are paying staff above the base salary schedule, this proposal will be phased in over two years. The changes also authorizes the schools to include the employer's share of social security and public employee retirement as an allowable transportation expense. Because federal law requires a local/state match on school lunch funding, the amendments require each local school district to pay the employer paid obligations for school lunch personnel from funds received from the state's general account appropriation for public school support.

6. The amendments eliminates the separate funding for approved special education personnel who currently receive 80 percent of their total salary costs from the state.

7. The amendments require a minimum increase for each school district equal to eight percent of the amount received during the current year for this bill to be in effect during FY 1995.

8. The salary allocations become one of the "categorical" amounts and are taken "off the top" prior to the calculation of the distribution factor.

ILLINOIS

Updated by

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Based on the 1990-91 description authored by Jennifer McCormick, Center for the Study of the States; William Hinrichs, Illinois State Board of Education; and G. Alan Hickrod, Center for the Study of Education Finance.

I. GENERAL BACKGROUND

State

- The state share of local and state revenue for public education has been continually decreasing since a high in 1976 of 48.4 percent to 32.8 percent in 1994.
- State funding for education is derived from the state sales tax and personal income tax, with some revenues also coming from the state lottery.
- The distribution of the General School Aid (GSA) to Illinois public schools is determined primarily on the equalized assessed valuation of property within a district, standardized across districts by a weighted average daily attendance student count. Aid is calculated using one of three formulas, depending on the equalized assessed valuation per pupil of a district: Special Equalization, Alternate Method, or Flat Grant.
- Elementary and secondary education received 24.4 percent of Illinois general funds in FY 1994 and 14.8 percent of all appropriated funds.
- Illinois operates the fifth largest public school system in the nation, with an estimated 1.89 million students enrolled in FY 1994.
- Illinois school finance has undergone several major changes over the years. Partly in response to *Serrano* v. *Priest*, the Legislature, in 1973, allowed districts to choose between two methods of funding, a Strayer-Haig wealth equalization formula (equal aid irrespective of district property wealth) or an Updegraff-Coons resource equalization formula (equal expenditure for equal effort). In 1980, the Legislature replaced the two with a hybrid that has since evolved into the current three-formula funding system.
- The Illinois Task Force on School Finance, after a two-year study, issued its final report in January 1993. The report of the Task Force called for a $3,898 foundation level based on an adequacy model developed by the State Board of Education. The report also called for the inclusion of a regional cost-of-education index and other changes to the GSA formula. Legislation was introduced but not passed.
- Over 70 school districts are suing the state — *Committee* v. *Edgar* — under an equity and adequacy claim. The case alleges violation of the State Constitution's education article and equal protection clause. There is also an

"at risk" student count, which alleges that the state is not meeting the needs of those children identified as "at-risk" of academic failure. This case has been dismissed at the Trial and Appellate court levels and will be heard by the Illinois Supreme Court in 1995. Legal activity is also present over a recent statute that limits property tax extensions in the collar counties (those surrounding Cook County) to a five percent increase per year or the consumer price index, whichever is lower.

Local

- The state has 925 financially independent school districts: 718 are funded through the Special Equalization formula and receive 94.9 percent of the GSA; 136 are funded through the Alternate Method formula and receive 4.3 percent of the GSA; and 71 are funded through the Flat Grant formula and receive .9 percent of the GSA allocation. School districts in the state are classified as elementary districts (of which there are 400), high school districts (110), and unit districts (415).
- Most school districts operate on a cash-accounting basis. Since income can be generated from current or prior-year tax extensions, total local revenue for any one year's school district operation cannot be easily calculated.
- Local funding comes primarily from the property tax (about 91 percent). Property tax provides approximately 60 percent of all school revenues.

Funding Summary, 1993-94 (Estimated)

Total State School Aid (All Programs)		$3,611 million
Grants in aid*	3,315 million	
Teacher retirement contributions	296 million	
FICA	0	
Total Local School Revenue		$6,512 million
Property tax	6,167 million	
Other local source tax revenue	0	
Local source non-tax revenue	345 million	
Total Combined State and Local School Revenue		$10,123 million
State Financed Property Tax Credits Attributable to School Taxes	0	

* GSA, $2,186 million; Categorical, $1,129 million.

II. THE BASIC SUPPORT PROGRAM

School Foundation Program

(Section 18-8)

Funding in 1993-94: $2,186.3 million (60.5% of total state school aid).

Nature of Program: Foundation program.

Allocation Units: Pupils. 1990 Census Low Income Weighted Average Daily Attendance (CWADA).

Aid is distributed based on the number of pupils in average daily attendance. The best three months ADA from the prior year is used as the basic unit. This count is weighted for grade level and number of at-risk children.

Local Fiscal Capacity: Equalized assessed property valuation (EAV) based on one-third of fair market value.

How Formula Operates: Aid is distributed to a district under one of three formulas: Special Equalization, Alternate Method, and Flat Grant. The actual adjusted EAV per CWADA determines which formula applies for calculating a district's funding.

The state aid formula compares the adjusted EAV per CWADA student of a district to a "state guaranteed wealth per CWADA," a level also known as a "state-guaranteed tax base." This state-guaranteed level varies for each of the three school district types. For 1993-94, the guaranteed wealth per CWADA was $144,278.94 for elementary districts, $249,209.09 for high school districts, and $99,322.46 for unit school districts.

The state-guaranteed tax base per CWADA student for each district type is mathematically related to a Foundation Level, which represents a guaranteed per-student floor of financial support. For 1993-94, the Foundation Level was $2,741.30. Dividing this Foundation Level by a statutorily set "computational" Operating Tax Rate (OTR) for each district type yields the state-guaranteed tax base for each district type. The OTR for elementary districts is 1.90 percent; for high schools, 1.10 percent; and for unit districts, 2.76 percent. For full funding, the district's actual OTR (excluding tax rates for community college tuition, bonds and interest, summer school, rent, capital improvements, and vocational education building purposes) must be equal to or greater than the computational OTR.

Special Equalization. The special equalization state aid computation can be expressed as follows:

$$\text{District General State Aid} = \text{CWADA} \times [(V_s - V_d) \times T]$$

where: V_S = State guaranteed wealth per CWADA for the applicable type of school district;

V_d = General State Aid Equalized Assessed Valuation per CWADA student of the district;

T = Applicable Operating Tax Rate	1.90 percent for elementary districts 1.10 percent for high school districts 2.76 percent for unit districts

In applying this formula for 1993-94, a district's equalized assessed valuation of real property for tax assessment year 1991 is used.

Tax rates used for 1993-94 formula calculations are the rates for tax year 1991. The formula above refers to an "applicable" OTR. The "applicable" OTR for calculation purposes varies with the type of organization of a school district and with the relationship of the district's actual OTR and the "computational" OTR set by statute. For formula calculation purposes, a computational OTR of 1.90 percent is utilized for elementary districts with an actual OTR of 1.28 percent or higher. In high school districts with an OTR of 1.10 percent or higher, 1.10 percent is the computational OTR. In unit districts with an OTR of 2.18 percent or more, 2.76 percent is the computational OTR. In districts with OTRs below these minimums (i.e., 1.28 percent for elementary, 1.10 percent for secondary, 2.18 percent for units), the actual OTR of the district is used for the computation.

Each Special Equalization district receives an amount of $356.37 or more per CWADA pupil. The state's poorest district receives an entitlement per CWADA pupil of $2,567.22. For 1993-94, 718 districts utilized the Special Equalization formula totaling 94.9 percent of the total GSA allocation.

Another way to arithmetically represent the Special Equalization Aid computation is to express the formula in terms of the Foundation Level:

District General State Aid = Foundation Level x CWADA – Local Revenue

where: Local Revenue = the General State Aid Equalized Assessed Valuation of the district, multiplied by the applicable computational OTR.

Alternate Method. Districts whose actual wealth per CWADA is 87 percent or more of the state-guaranteed wealth per CWADA student use the Alternate Method formula. The calculation is as follows:

$$\text{District General State Aid} = \text{CWADA} \times \text{Foundation Level} \times .13 \times (.87\, V_s/V_d)$$

where: Foundation Level = $2,741.30 per pupil

V_s = state-guaranteed wealth per pupil per CWADA student for the applicable district type;

V_d = the district's GSA equalized assessed valuation per CWADA student.

For 1993-94, 136 districts utilized the Alternate Method formula totaling 4.3 percent of the total GSA allocation.

Flat Grant. Districts with the highest equalized assessments per CWADA student use the Flat Grant formula. The Flat Grant formula is statutorily set at 7 percent of the Foundation Level ($191.89) per CWADA student.

For 1993-94, 71 districts utilized the Flat Grant formula totaling .9 percent of the GSA allocation.

State Share: The state share of the GSA is equal to the calculated amount for each district using one of the three funding formulas.

Local Share: There is no mandatory local contribution. Districts are responsible for costs not covered by the GSA.

Weighting Procedures: Pupils in pre-K-6 are weighted 1.00; pupils in grades 7-8 are weighted 1.05; and pupils in grades 9-12 are weighted 1.25. For formula calculation purposes, a district's grade-weighted attendance is adjusted upwards by including a percentage of a district's low-income student count, an adjustment for 1990 Census low-income pupils. This addition ranges from zero in a district with no low-income eligible students to a statutory maximum weighting of .625 per low-income pupil.

Adjustments for Special Factors: None.

Aid Distribution Schedule: General State Aid is distributed twice each month, August through July.

Districts Off Formula: None. All 925 districts receive GSA under one of the three methods of funding.

III. TRANSPORTATION

Regular and Vocational Transportation
(Section 29-5)

Funding in 1993-94: $130.3 million (3.6% of total state school aid).

Description: The state provides funding for regular and vocational transportation.

Regular. The state reimburses much of the allowable costs of transporting eligible pupils to and from their home and school. Eligible pupils are those residing 1.5 miles or more from school and students who must otherwise walk through a safety hazard area as determined by local boards using guidelines established by the Illinois Department of Transportation. A school district may provide its own transportation or may contract with a transportation carrier.

Vocational. The state reimburses costs to any school district providing school-day transportation to and from school and an approved vocational program that is either 1.5 miles apart or through a safety hazard area. Approved vocational programs include area vocational centers, another school's vocational program, and a community college program providing advanced training for 11th- and 12th-grade students in preparation for a trade.

State and Local Share:

Regular. State reimbursements for the current fiscal year are paid against claims filed for costs in the prior year. The state reimbursement is the greater of the district's equalized assessed valuation multiplied by a computational tax rate (.06 for elementary districts, .05 for high school districts, .07 for unit districts) or $16 multiplied by the number of eligible pupils transported. Other claim reductions may apply; if the claim amount is greater than 80 percent of the total eligible costs and the district's transportation tax rate is less than .12 percent, the state prorates the aid (but to no less than 80 percent of eligible costs). Districts are responsible for the costs not reimbursed by state aid.

Vocational. State reimbursement is 80 percent of the allowable costs. Districts are responsible for the costs not reimbursed by state aid.

Special Education Transportation
[Section 14-13.01(b)]

Funding in 1993-94: $104.6 million (2.9% of total state school aid).

Description: The state reimburses for the transportation of special education pupils who, determined in advance by the State Board of Education, require special transportation services in order to take advantage of special education facilities. Reimbursement may be provided for qualified transportation for special education students enrolled in both public and nonpublic schools.

State and Local Share: The state reimburses 80 percent of the allowable costs. For 1993-94, the state appropriation was sufficient to reimburse approximately 74 percent of the 1992-93 special education transportation claims of districts. Districts are responsible for the costs not reimbursed by state aid.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

No state aid is provided for capital outlay or debt service.

Local Capital Project Financing

Capital funding at the local level is done primarily through the sale of bonds approved by local referenda.

V. TEACHER RETIREMENT

Funding in 1993-94: $295.8 million (8.2% of total state school aid).

Description: The state is responsible for assuring pension benefits for retired teachers and makes annual employer contributions to each of the two teacher retirement systems: the School Teachers Pension and Retirement Fund of Chicago (for qualified personnel in the Chicago Public Schools) and the Teachers' Retirement System of the State of Illinois (for other district personnel and professional employees of the State Board of Education).

VI. SPECIAL EDUCATION

Personnel Reimbursement
(Section 14-3.01)

Funding in 1993-94: $192.1 million (5.3% of total state school aid).

Description: School districts and special education cooperatives are reimbursed for special education personnel and for home/hospital services. Approved costs are not equalized. The following rates are approved for FY 1995:

- For eligible physically handicapped children and all eligible children whose placement, determined under Section 14-8.02, is in hospital or home instruction — one-half of the teacher's salary, but not more than $1,000 annually per child or $8,000 per teacher, whichever is less;

- For readers working with blind or partially sighted children — one-half their salary, but not more than $400 annually per child;
- For necessary noncertified employees working in any approved class or program — the lesser of one-half of the salary paid or $2,800 annually per employee;
- For each full-time qualified director of special education — $8,000;
- For each full-time school psychologist — $8,000;
- For each full-time qualified teacher working in an approved program for deaf or hard of hearing preschool children — $8,000;
- For each full-time professional working — $8,000. This is limited to speech correctionists, school social workers, school psychologist interns, school social work interns, school nurse interns, certified school nurses, special administrator interns, registered therapists, professional consultants, special education administrators or supervisors, and special education certified teachers.

State and Local Shares: Districts are reimbursed for the prior-year expenditures. The state pays 100 percent of the calculated aid amount. Districts are responsible for the costs not reimbursed by state aid.

Special Education Extraordinary Services
[Section 14-7.02(a)]

Funding in 1993-94: $65.1 million (1.8% of total state school aid).

Description: This program provides special education services in the least restrictive environment for children with disabilities when the cost for such specialized services is high. State reimbursement affords districts some additional financial assistance in providing for these special education and related services in the public sector.

State and Local Share: The state reimburses districts for the actual amount of the prior-year costs of educating the child, less the per-capita tuition charge, less costs covered under Special Education Personnel, up to a maximum of $2,000 per child. Districts are responsible for the costs not reimbursed by state aid.

Special Education Private School Tuition
(Section 14-7.02)

Funding in 1993-94: $23.5 million (less than 1% of total state school aid).

Description: This fund supports the education of children whose needs cannot be met by public schools. Such children may attend private or public special education facilities either in-state or out-of-state that provide the necessary services as determined by the placing district in accordance with the student's individualized education program.

State and Local Share: The state reimburses the prior-year costs of education less the district's per-capita tuition charge if the cost is under $4,500 per regular school year. Districts are responsible for the costs not reimbursed by state aid.

Special Education Orphanage Tuition
[(Section 14-13.01(b)]

Funding in 1993-94: $50.6 million (1.4% of total state school aid).

Description: These funds reimburse districts for providing special education classes for identified children with a disability in orphanages, children's homes, foster family homes, state agencies, and state residential units.

State and Local Share: Reimbursable costs for this program are determined by the actual cost of maintaining classes with certain limitations on administrative, supervisory, and facility use costs for current-year expenditures. Districts are responsible for the costs not reimbursed by state aid.

Special Education Summer School

(Section 18-4.3)

Funding in 1993-94: $2.7 million (less than 1.0% of total state school aid).

Description: The state reimburses districts for extended-year programs or services for eligible students. Eligibility is defined as follows: pupils must be enrolled for at least 60 hours per summer, pupils must be eligible pursuant to sections 14-7.02 or 14-7.02a, and there shall not be a tuition charge.

Philip J. Rock Center and School Materials for the Visually Impaired Program

(Section 14-11.02)

Funding in 1993-94: $3.0 million (less than 1.0% of total state school aid).

Description: The Philip J. Rock Center and School provides full residential and educational services to 25 persons and provides full counseling services for up to 200 deaf and/or blind persons throughout the state. Nearly 3,000 K-12 students receive materials through the visually impaired program.

Services to Children with Low-Incidence Disabilities

Funding in 1993-94: $1.5 million (less than 1.0% of total state school aid).

Description: This program provides partial funding to special education regional programs, joint agreements, and independent school districts that serve students with low-incidence disabilities. These services include diagnostics, technical assistance, program supervision and consultation, instructional and related services, resource referral, and inservice training.

VII. COMPENSATORY EDUCATION

State Adult Education

(Sections 10-22.20)

Funding in 1993-94: $8.2 million (less than 1.0% of total state school aid).

Description: Participating local education agencies that offer adult education programs toward an elementary equivalency, high school diploma, or equivalency certificate for eligible students are reimbursed per student-unit of instruction. Eligible adults are 16 years or older who (a) have not completed the secondary level and are not attending school and (b) have completed the secondary level and who can verify a need for job skills improvement and/or employability skills. This fund includes $1.2 million in state matching funds.

Public Assistance Adult Education Program

(Section 10-22.20)

Funding in 1993-94: $9.8 million (less than 1.0% of total state school aid).

Description: This program is parallel to the state adult education program, but is reserved for students who are also on public assistance. Expenditures in this program are eligible for federal reimbursement.

K-6 Reading Improvement Program

Funding in 1993-94: $43.6 million (1.2% of total state school aid).

Description: The program provides grants to school districts to help meet the district's costs of employing personnel and purchasing materials to serve at-risk or disadvantaged children with reading problems in the grades K-6. Eligibility for participation is specified by the federal Census count of low-income students.

VIII. GIFTED AND TALENTED EDUCATION

Gifted Education Reimbursement

(Article 14A)

Funding in 1993-94: $17.4 million (less than 1.0% of total state school aid).

Description: Funds are provided under a formula or a personnel basis to reimburse districts for services and materials to assist in developing and improving educational programs for gifted and talented students. Using the formula method, districts may claim up to five percent of the number of students in average daily attendance; the personnel method earns $5,000 for each full-time professional meeting established guidelines.

IX. BILINGUAL EDUCATION

(Article 14C)

Funding in 1993-94: $51.7 million (1.4% of total state school aid).

Description: Bilingual education is provided via two current funded programs: Transitional Bilingual Education (TBE) and Transitional Programs of Instruction (TPI) for children of limited-English proficiency. TBE programs are required in schools with 20 or more students with the same native language; all courses required by Illinois law must be taught in the native language if English proficiency is not high enough. TPI programs apply to schools with less than 20 students of the same language background. After receiving program approval from the State Superintendent of Education, districts are eligible for reimbursement up to an approved ceiling based on enrollment per attendance center of students with limited-English proficiency. Bilingual programs are mandatory in Illinois public schools from kindergarten to 12th grade, but pre-K bilingual programs are funded.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

(Paragraph 697)

Funding in 1993-94: $50.4 million (1.4% of total state school aid).

Description: Vocational Education provides educational program opportunities in occupational information and specific job training. Funds support vocational education's six goals: academic achievement, occupational competence, employment, educational attainment, economic competitiveness, access, and equity. Funds are reimbursed for approved vocational programs designed to equip youth and adults for employment, to improve vocational education staff development, and to provide quick-start training assistance to business and industrial firms in the state.

State Share: The state appropriated $46.9 million for regular vocational program costs incurred during FY 1993, another $3.0 million for the Vocational Education Tech Prep, and $.5 million for the Student Apprenticeship Program.

Free Lunch and Breakfast Programs
(Article 712)

Funding in 1993-94: $12.9 million (less than 1.0% of total state school aid).

Description: Illinois law mandates free lunches for needy students as defined by the National School Lunch Program. The Illinois State Free Lunch and Breakfast Programs are voluntary and are available to both public and private school systems. Participating schools are reimbursed up to 15 cents for each free lunch and each free breakfast served to an eligible student.

Truants' Alternative and Optional Education Program
(Section 2-3.66 and 204-1)

Funding in 1993-94: $17.5 million (less than 1.0% of total state school aid).

Description: These programs are part- or full-time options in lieu of regular school attendance designed to prevent students ages 16 to 21 from dropping out of school. Programs may be operated by regular school districts, educational service regions, or community colleges.

Textbook Loan Program

Funding in 1993-94: $8.0 million (less than 1.0% of total state school aid).

Description: The State Board of Education is required to provide a free loan of textbooks to any K-12 student enrolled in a public or nonpublic school in compliance with state attendance laws and Title VI of the Civil Rights Act of 1964. This is not a reimbursement program; parents request textbook loans from the school, which forwards requests to the state. The state agency then purchases the textbooks for use in the requesting school.

Substance Abuse Prevention
(P.A. 86-822)

Funding in 1993-94: $4.5 million (less than 1.0% of total state school aid).

Description: The State Board of Education awards competitive grants to districts to establish drug-free community and school planning and implementation strategies, and to provide for staff development activities, software, and curriculum materials.

Professional Development and Student Assessment
(Section 2-3.59)

Funding in 1993-94: $15.0 million (less than 1.0% of total state school aid).

Description: State law requires districts to conduct staff development programs. Following program approval from the State Board of Education, districts receive aid to fund programs provided through cooperatives or joint agreements with educational service centers or regional superintendents. This also includes several scholarships available to teachers, funding for districts to develop local assessments, and funding for the development of statewide assessments.

Scientific Literacy
(Section 2-3.94 and 2-3.95)

Funding 1993-94: $9.8 million (less than 1.0% of total state school aid).

Description: The State Board of Education enters into contracts and awards grants to districts, colleges and universities, and the Mathematics and Science Academy to provide inservice/staff development for elementary and secondary teachers. The Board also provides competitive grants to districts providing pilot programs in scientific literacy.

District Consolidation
(Articles 11A and 11B)

Funding in 1993-94: $17.7 million (less than 1.0% of total state school aid).

Description: The merging of two or more existing districts to create a new district requires the following: voter signatures on a petition authorizing a maximum tax rate the new district may levy, a public hearing by a regional superintendent followed by a recommendation whether or not to approve the petition, a review by and decision from the State Superintendent, a referendum approving the district by a majority of affected voters, and the election of a new board of education.

State Share: The state authorizes four supplementary payments to newly consolidated districts for any loss in general state aid resulting from the merger; the difference in teacher salaries among the merged districts; differences in deficits among the merged districts; and $4,000 for each certified district regular full-time employee for the first three years.

District Report Card/Criminal Background Investigation
(Sections 10-17a, 34-88, 10-21.9, and 34-18.5)

Funding in 1993-94: $1.6 million (less than 1.0% of total state school aid).

Description: These funds implement the Report Card and Criminal Background Investigation elements of the Education Reform Act of 1985. The law requires that by October 31 each year, each district must submit a report card for each of its schools to parents, taxpayers, the General Assembly, the Governor, the State Board of Education, and regional superintendents. Districts are reimbursed for expenses related to printing and distributing report cards and conducting criminal background investigations.

Pupil Tuition Claims for Orphanages
(Section 18-3)

Funding in 1993-94: $5.1 million (less than 1.0% of total state school aid).

Description: Eligible districts may file a claim for the annual tuition cost of the preceding school year for K-12 pupils from orphanages, children's homes, or state-owned housing. Districts receive no local property tax revenue on behalf of these children and cannot claim them in average daily attendance for General State Aid purposes. Payments are based on the district's prior-year per capita tuition charge multiplied by the average daily attendance of these pupils.

Agricultural Education
(Section 2-3.80)

Funding in 1993-94: $1.1 million (less than 1.0% of total state school aid).

Description: These funds support district initiatives to improve and expand agricultural education programs through direct grants to local agency agricultural education programs, curriculum development activities, and inservice for instructors.

Educational Service Centers
(Sections 14A-6, 2-3.43, 2-3.62)

Funding in 1993-94: $8.3 million (less than 1.0% of total state school aid).

Description: Educational Service Centers plan, implement, and evaluate three types of services: education for gifted children, computer technology education, and math-science-reading resources for teachers. Centers may also provide training, technical assistance, coordination and planning in other program areas such as career guidance, early childhood education, alcohol/drug education and prevention, family life/sex education, electronic transmission of data from districts to the state, alternative education, identification of exemplary programs and regional special education.

School Improvement Support

Funding in 1993-94: $5.0 million (less than 1.0% of total state school aid).

Description: This program aims to provide local districts the opportunity to voluntarily pursue educational change, educational choice, and programmatic and financial technical assistance. The aim is to encourage creative ideas for improving education. Funds may be used to assist districts or groups of districts to explore and plan for initiation of educational choice initiatives which conform to State guidelines.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Private school students are included in the Textbook Loan Program, Special Education Transportation Program, Parental Reimbursement for Transportation Program, and the Free Lunch and Breakfast Programs.

XII. EARLY CHILDHOOD EDUCATION

Pre-Kindergarten Program for Children At Risk of Academic Failure
(Section 2-3.71)

Funding in 1993-94: $87.7 million (2.4% of total state school aid).

Description: These funds provide grants to public school districts to conduct screening programs to identify pre-kindergarten children at risk of academic failure and to provide appropriate educational programs for those children to increase their likelihood of school success. Children to be served are those who, because of their home and community environment, are subject to such language, cultural, economic, and similar disadvantages that they have been determined to be at risk of academic failure. Program components include evaluation and parent involvement emphasizing linkage with other agencies and organizations in the community which serve the same population. Projects are selected based upon new and continuing proposals submitted annually.

Model Early Childhood Parental Training Program
(Section 2-3.71a)

Funding in 1993-94: $3.9 million (less than 1.0% of total state school aid).

Description: The state provides funds for the administration and implementation of grants to public school districts to conduct model pilot early childhood parental training programs for the parents of pre-kindergarten children. The programs offer classes and support groups to teach parents how to develop skills and confidence to foster their children's healthy development.

Prevention Initiative Program for At-Risk Infants and Their Families

(P.A. 85-1046)

Funding in 1993-94: $2.0 million (less than 1.0% of total state school aid).

Description: The goal of this program is to reduce school failure by coordinating and expanding services to all children under three years old who live in one of the 27 areas designated as "Families with a Future" (Infant Mortality Reduction Initiative). The funds support competitive grant programs for the development of programs to this end.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

Approximately $6.5 billion is raised annually through the local property tax. All counties except Cook assess property at 33 1/3 percent of fair market value. In Cook County, residential property is assessed at 16 percent and other categories as high as 40 percent. Equalization studies, conducted annually by the Illinois Department of Revenue, are used to compute a county-level multiplier. The multiplier is used in an attempt to bring all property to the statutory 33 1/3 percent assessment level.

Section 17-1 of the School Code requires districts to adopt, before or during the first quarter of each fiscal year, an annual budget which specifies the objects and purposes of expenditures and the revenues necessary to meet the anticipated expenses and liabilities of the district. The Illinois Truth in Taxation Act affects all units of government authorized to levy taxes, including school districts.

Income Tax

Illinois has no local income tax.

Other Sources of Local Tax Revenue

Revenues to replace those lost due to the abolition of the tax on corporate personal property are considered to be local. These revenues are collected through the state income tax on corporations and distributed by the state to units of local government.

Other local revenue comes primarily from fees and private contributions.

Tax Credits and Exemptions

Illinois provides general homestead, senior citizen, and disabled veteran exemptions. A current circuit breaker for senior citizens with low income is also available.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Tax rates for school districts are related to specific funds. School districts are subject to various limitations in property tax rates for each fund. State law limits tax rates in most major funds to both a permissive level and a maximum level. The permissive level is the rate allowed without referendum approval of the voters of a district. The maximum is the limit allowed with local referendum approval.

Spending Limits

School districts in DuPage, Kane, Lake, McHenry and Will counties are subject to property tax extension limitations. The growth is limited to the lesser of five percent or the CPI-U.

Voter Approval of Budgets and Bond Issues

Local Boards of Education must adopt a budget on or before September 30 of each fiscal year. No voter approval is required.

Bonding Authority

Limitations on school district bonded indebtedness are determined in relationship to a district's equalized assessed valuation (EAV) of real property. For elementary and high school districts the limit is 6.9 percent of EAV and for unit districts 13.8 percent of EAV. A maximum of 15 percent of EAV may be incurred by certain growth districts when the regional superintendent concurs with the school board's enrollment projections and two-thirds of the electors approve the bond issue. There are no limitations if bonds are issued for capital projects.

XV. EARMARKED STATE REVENUE

All of the lottery proceeds, seven percent of net tax collections, and a small percent of state sales tax are earmarked for education.

XVI. SPECIAL TOPICS

A limited charter school program (45 schools) has been proposed in legislation, but has not been adopted.

The state initiated a Block Grant Program for School Improvement that will be implemented in FY 1996.

A proactive waiver policy was enacted by the Legislature with the support of the State Board of Education. This policy allows school districts to receive a waiver within 45 days of their petition unless it is denied by the State Board of Education. School districts can petition the Legislature if the State Board denies a waiver request or if a district desires to waive a law.

Dr. Joseph A. Spagnolo, state superintendent of education, presented the Quality Schools Initiative (QSI), his vision for reengineering education in Illinois, to the State Board of Education on December 15, 1994.

INDIANA

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I. GENERAL BACKGROUND

State

- In 1993-94, total state and local public school revenues were $5,241.6 million. Of that total, the state share was $2,733.4 million or 52.2 percent. The state grants a property tax credit of approximately 12 percent of property taxes paid, and adding this figure to the state share increases the state's share to 57 percent.

- In 1993, Indiana adopted a new and dramatically different school distribution formula to be first implemented in calendar year 1994 (described in detail in Section II). Thus, 1993-94 school year expenditures and revenues were governed by two quite different formulas. The formula in effect for the first half of the 1993-94 school year was first implemented in 1973. In 1993, it required school corporations to increase general fund property tax rates by eight cents, then limited school general fund total revenue increases (state and local) to $180 per pupil and guaranteed a minimum of $3,070 per pupil, but the guarantee included the dollars for at-risk children and social security obligations which local schools were required to pay for the first time (see discussion under Section V, Social Security).

- The second half of the 1993-94 school year was governed by the new formula adopted in 1993 — a guaranteed tax base type of formula. Although the new formula continues to severely limit permitted increases in general fund expenditures from state and local taxes, it is an effort to produce equalization, i.e., equal dollars per pupil to spend for equal local property tax effort.

- The principal sources of revenue for public education are state and local taxes. State sources are from general revenues and a Property Tax Replacement Fund (PTRF). State revenue for Indiana public schools comes primarily from a general retail sales tax, an individual flat rate income tax and three separate corporate income taxes. Appropriations are made biennially from the state's general fund.

- Each year since 1973, the Indiana General Assembly has specified maximum general fund property tax levies for each school corporation. There are a few circumstances under which a school may impose a higher levy than permitted by the statute but only after applying for and receiving approval from two state agencies. Although there are some provisions for local referenda to raise additional revenue and modify local tax levies, only a small number of districts have used these procedures and fewer than half have been successful.

- There is an increasing and substantial concern over both adequacy and equity issues. During the 1970s and 1980s the legislature attempted to narrow the total range of expenditures and was successful in increasing expenditures in the low spending districts. Nevertheless, in 1987, some 50 school corporations joined as plaintiffs in a lawsuit filed in the state courts challenging the constitutionality of the state's school distribution formula, indicating some degree of continuing dissatisfaction with its fairness. The suit was dismissed following adoption of the new formula by the 1993 General Assembly. The new formula seeks greater equity for taxpayers, but there is increasing concern about the adequacy of the financial support for schools.

Local

- In 1994, Indiana had 294 public school corporations (districts) enrolling 930,159 students and all are consolidated districts offering both elementary and secondary education. Indiana school corporations are independent municipal corporations.
- School corporations in Indiana are managed by a superintendent and a school board and vary in size from 50,245 to 48 pupils. There are also nine regional service centers that do not receive formula support but do depend on subsidies from local participating schools and on categorical distributions from the state's education budget.
- School corporations must use five separate statutory funds for financing their activities. These funds are the General Fund, the Transportation Fund, the Debt Service Fund, the Capital Projects Fund, and a Pre-school Special Education Fund. Monies may not be transferred between funds without specific legislative authorization. The General Fund is the largest of these funds, but increases in this fund have been limited by the General Assembly each year since 1973. The tax rate for the Capital Projects Fund is capped at $1.25 and the Pre-school Special Education Fund is limited to $.01. The Transportation Fund and the Debt Service Fund are currently not limited, but there is increasing anticipation that the 1995 session of the Indiana General Assembly will impose some form of limitation on these funds.
- The property tax, collected by separate rates established and publicly advertised for each of the funds, is the largest source of local school revenues. When the Indiana General Assembly changed the property tax system in 1973, the ratio of state to local funding was approximately 1:2; in 1991, the ratio of state to local funding was more than 2:1. For the 1993-94 school year, the ratio is approaching 1:1. Additional sources of local revenue are a motor vehicle excise tax and a county adjusted gross income tax (CAGIT) or a county option income tax (COIT). These income taxes are available not as an additional source of revenue, but only to replace property tax receipts or reimburse for receipts lost due to homestead exemptions.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$2,734 million
Grants in aid	2,514 million	
Teacher retirement contributions	220 million	
FICA	0	
Total Local School Tax Revenue		$2,508 million
Property tax revenue	2,200 million	
Other local source tax revenue	308 million	
Local source non-tax revenue	0	
Total Combined State and Local School Revenues		$5,242 million
State Financed Property Tax Credits Attributable to School Taxes	258 million	

II. THE BASIC SUPPORT PROGRAM

The Basic Grant

Funding in 1993-94: $2,017.9 million (73.8% of total state school aid).

Nature of Program: Guaranteed Tax Base. The 1993 portion of the school year was governed by a tuition support program first begun in 1973. The local share was based primarily on a foundation-level program in effect prior to the 1972-73 school year. The 1994 portion of the school year was based on a newly adopted guaranteed tax base formula first effective for calendar year 1994 and described below under "How Formula Operates."

Allocation Units: Pupils. Enrollment. The new formula uses Weighted ADM. A Day's Membership is enrollment data for a day in September set by the Indiana Department of Education, usually the fourth Friday following Labor Day — a day intended to reflect stabilized enrollments. Weighted ADM (WADM) is ADM modified by a factor which reflects the number of at-risk children in attendance, and is applicable only to those school corporations with a relatively large percentage of such children. This restrictive eligibility in the new formula means that in 1994 only 68 out of a total of 294 school corporations qualify to receive 1994 at-risk funds.

.*Local Fiscal Capacity:* Assessed property valuation, auto excise tax, and a financial institutions tax distributions.

How Formula Operates: Beginning in calendar year 1994, Indiana distributes funds to schools under a guaranteed tax base formula. Designed to be phased in over a six year period, the new formula, like the old, continues to dictate by how much general fund state and local tax expenditures per pupil may increase and then computes a tax rate, depending on the allowable level of expenditures, using the following matrix:

Expenditures per WADM	*Tax Base Guarantee AV/PupilTax*	*Tax Rate*	*Cumulative Rate*
$ 0-3,680	$123,000	$2.99	$2.99
3,681-4,035	77,200	.46	3.45
4,036-4,390	62,300	.57	4.02
4,391-4,745	53,000	.67	4.69
4,746-5,100	44,400	.80	5.49
5,101-5,455	39,000	.91	6.40

The relationship between the level of expenditures and the guaranteed tax base is quite arbitrary. It was computed by the legislature, based almost entirely on the number of dollars the state chose to make available to fund the formula.

Having computed the required tax rate, the school corporation applies that rate to its own actual assessed valuation to determine its local share. The state then distributes to that corporation the difference between its allowable expenditures and the local share. Theoretically designed to provide equalization (equal dollars per pupil for equal local tax effort) at the end of six years, the formula contains several severe limitations. Tax rates may not increase or decrease more than $.15 in any one year and in many cases, the allowable change is less than $.15. In addition, the formula contains a minimum guarantee, expressed as a percentage of expenditures, ranging from 2.5 percent for the lowest spenders to 1.25 percent for the highest spenders. In fact, in 1994, because the formula was underfunded, 182 school corporations out of a total of 294, or 62 percent, fell outside the formula and received only the minimum guarantee.

For 1994, the per-pupil general fund expenditure limit is the 1993 expenditures per WADM increased by $11 plus one-sixth of the difference between $3,525 and the 1993 expenditures per WADM. The $3,525 is a floating per pupil expenditure floor which schools should theoretically reach by 1999. For 1995, it is $3,640 and the allowable increase is one-fifth of the difference. It is presumed that future sessions of the Indiana General Assembly will increase the floor for later years. Certain schools with particularly high tax rates and relatively low expenditures per pupil compared to other schools with similar tax rates are allowed higher expenditure increases. Their expenditures may increase by an additional $44 per pupil plus an additional one-sixth of the difference between the floating expenditure floor and their 1993 expenditures per WADM.

The statute makes no provision for expenditures beyond 1995. It is assumed that future sessions of the Indiana General Assembly will provide the necessary details for future years.

Reduced to a single equation the 1994 formula looks like this:

State Share (1994 State Tuition Support) = 1994 Target Revenue (Expenditure Limit) - Local Share

where:

1994 Target Revenue = 1993 Revenue per WADM + $11 + [($3,525 - 1993 Revenue per WADM) / 6] x 1994 WADM*

Local Share = Target property tax rate from matrix** (adjusted) x School corporation's actual Assessed Valuation

* or minimum guaranteed increase if greater.

** If the school's 1994 target tax rate is lower than 1993 tax rate, 1993 target revenue/WADM is increased by $55 + [($3,525 - 1993 Revenue per WADM) / 3]

Local Share: See above.

Weighting Procedures: For ADM purposes, kindergarten is weighted at .5, since kindergarten is half day.

Adjustments for Special Factors: See above

Aid Distribution Schedule: Information not provided.

Districts Off Formula: All school corporations receive aid, although in 1994, 62 percent of them fell outside the formula and received aid only under the minimum guarantee provision.

III. TRANSPORTATION

Funding in 1993-94:
Regular transportation support $32.2 million (1.2% of total state school aid).
Special and Vocational transportation $7.6 million (less than 1.0% of total state school aid).

Description: School corporations are reimbursed for approved costs of transporting public school pupils over 1.0 miles. Regular school transportation reimbursement is computed on the basis of factors existing in each school corporation for the school year ending in the preceding calendar year.

The target per-pupil amount is equal to $280 minus an amount determined by multiplying $20 by the linear density of the corporation. Linear density is determined by dividing the total number of eligible pupils by the total round trip mileage. The target per pupil amount is then multiplied by the number of eligible pupils to yield the total transportation allowance.

State Share: The difference between the school corporation's transportation allowance and the local share is the school corporations' entitlement from the state. If the state appropriation for transportation is insufficient to pay the state's entire obligation, each school's entitlement is proportionately reduced.

The state appropriation for transportation only covers 18-20 percent of transportation costs. Unlike the general fund, the property tax rate for transportation is currently unlimited. School corporations are free to impose whatever additional property taxes are needed to cover transportation costs. As a result, many school corporations make an effort to include some of their administrative costs in the transportation fund. Because of this practice, coupled with the fact that state appropriation increases for transportation have been quite small, there will most certainly be a concerted effort made by legislators in the 1995 session of the Indiana General Assembly to impose a maximum limit on the transportation fund property tax rate.

Special education and vocational education transportation reimbursement is computed on an incurred cost basis. For both of these programs the entitlement is 80 percent of the eligible costs of transporting those students to their respective programs.

Local Share: The amount raised by imposition of a tax rate of $0.42 on the previous year's assessed valuation.

Extent of Participation: 294 school corporations.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

The only state aid for capital outlay is the Common School Fund. Schools may apply for low interest loans from this fund for capital projects and technology. These loans are made available to poor schools — those in the lowest 40 percent of assessed value per ADA (students in average daily attendance). Technology loans are not as restrictive but are based on detailed plan rationale.

Debt Service

The state annually distributes a $40 per ADA flat grant to all school corporations. Originally this money was to be used for debt service payments, but over the years schools that did not have debt service obligations could use it in the general funds. The statute now limits the amount of the flat grant that may be used in the general fund to no more than the greatest amount so used in any one calendar year between 1973 and 1993. Any amount left must be used for debt service, if there is any. If any of the flat grant dollars are left after that, they may be used for either current operating expenses or may go the capital projects fund.

Local Capital Project Financing

School corporations may levy property taxes for the debt service and capital projects funds (CPF). A corporation is authorized to have a debt service fund levy to meet annual debt service obligations, including lease-rental agreements, bond retirement, civil bond obligations, and other indebtedness.

The capital projects fund may be used for the following: construction, repair, replacement, or remodeling; site acquisition and development; purchase, lease, and repair of equipment other than vehicles and equipment used primarily for interscholastic or extracurricular activities; and purchase, lease, upgrading, maintenance, or repair of computer hardware and software. A plan must be formulated for the ensuing year for the use of the capital projects fund and must be adopted each year as a part of the annual budget. The maximum property tax rate for this fund is $1.25.

There is a state constitutional general obligation debt limit in each school corporation equal to two percent of its current assessed valuation. Further debt can be incurred through lease-rental agreements with private or public holding corporations.

The state contributes to the capital projects fund and the debt service fund through property tax replacement credits on debt incurred prior to 1984.

General obligation bond issues are begun by submission to the local school board of a petition seeking issuance of bonds for a particular project signed by at least 50 taxpayers in the school corporation. Indiana does not require approval of bond issues by referenda. It does, however, provide for citizen input through a remonstrance procedure. Taxpayers have 45 days following school board approval of a bond issue to gather signatures of taxpayers in the school corporation who object to the bond issue. If the remonstrators gather one more signature on the remonstrance than there were signatures on the original petition for the bonds, bonds cannot be issued and no petition for new bonds for that project can be submitted for one year.

In the case of a lease rental, the school board must hold a public hearing on the lease and then give its approval. Taxpayers who oppose the lease may file an objection. A hearing is then held in the school corporation by the Indiana State Board of Tax Commissioners. If taxpayers remain dissatisfied with the hearing outcome they may seek further review by the Indiana School Property Tax Control Board, which makes a recommendation to the Indiana State Board of Tax Commissioners, which has final approval authority.

State and Local Shares: The local share of capital costs is essentially 100 percent. Some schools may use the $40 flat grant to pay debt service.

V. TEACHER RETIREMENT

Funding in 1993-94: $219.8 million (8.0% of total state school aid).

Description: For the 1993-94 school year, teacher retirement payments for certified employees were made to the Indiana Teacher's Retirement Fund, a defined pension benefit system. The state acted as employer for these benefits. State appropriations were paid directly to the teacher retirement fund in lieu of being incorporated into state aid payments to local school districts. However, beginning on July 1, 1995, each local school corporation will be responsible for paying the employer's share of retirement benefits for newly hired teachers and any currently employed teachers who transfer into the school corporation.

There is an unfunded liability in the Teacher Retirement Fund of over $6 billion. Prior to the commencement of the 1995 Indiana General Assembly, the governor spoke of the need to reduce that unfunded liability by appropriating significant funds to the Teachers Retirement Fund.

Historically, an employee share of three percent has been a contributory component of the fund. Some local school districts elect to pay the total employee share of three percent as a negotiated benefit.

Non-certificated employees are covered by PERF (Public Employees Retirement Fund) and FICA. The employer share for PERF varies by school district based on current pension obligations and projected liabilities of the district. The employer share is seven percent on average with a three percent employee contribution.

State and Local Teacher Retirement Shares: The state contribution is 7.4 percent of the salary received by the member. Local districts contribute the remainder of the obligations.

Extent of Participation: 294 school corporations.

Social Security

Funding in 1993-94: $176.3 million (6.4% of total state school aid).
Included in the basic support grant of $2,017.9 million.

Description: Beginning in calendar year 1993, the state began to require local school corporations to pay the employer's share of social security for all certified personnel except those whose salaries were attributable to federal, state, or local grants. This was a new obligation for local schools—one that had been reimbursed by the state in prior years. The reimbursement level for the 1993-94 school year was governed and subject to the greater of FY 1991 or FY 1993 actual obligations reported by the local school corporation. (For 1994 and future years, the 1992-1993 social security obligations govern the amount of the distribution. It becomes part of the previous year's revenue in the school distribution formula and loses its identity.)

State and Local Shares: For the 1993 -94 school year, the state share was no more than 100 percent of the fiscal year 1991 social security obligation. The local share was that portion of the obligation not covered by state reimbursement.

Extent of Participation: 294 school corporations plus special and vocational educational cooperatives.

VI. SPECIAL EDUCATION

Funding in 1993-94: $184.8 million (6.7% of total state school aid).

Description: State aid for the handicapped, a categorical flat-grant program, is added into the General Fund mix and used in the calculation of the overall minimum revenue guarantee. Disabled and handicapped students are classified on December 1 (the federal count date) into various exceptionality areas, on an excess cost basis set out in the statute, resulting in an additional pupil count (APC).

State and Local Shares: The state share is a flat grant equal to the product of the APC multiplied by $1,580 for 1994. The local corporation is expected to provide all needed additional dollars for special education from its general fund revenues.

Extent of Participation: 294 school corporations.

VII. COMPENSATORY EDUCATION

K-12 At Risk

Funding in 1993-94: $14.3 million (less than 1.0% of total state school aid).

Description: An at-risk index is computed for each school corporation using 1980 decennial census data (1990 data were not available in the formats necessary for computation) as follows:

Add:

1. the percentage of families in the school corporation with children under 18 years of age that have a family income below the poverty level, multiplied by 0.315; and
2. the percentage of non-institutionalized children in the school corporation whose parents do not live together within the household, multiplied by 0.5; and
3. the percentage of the population in the school corporation that is at least 19 years of age and has not graduated from high school, multiplied by 0.185.

Multiply this sum by .062 for 1994 (.069 for 1995) to arrive at the index number. (The .062 and .069 multipliers are arbitrary numbers added to reduce the number of dollars required to fund at-risk children.) Beginning in 1994, in an effort to concentrate at-risk dollars where there are significant numbers of such children, only those schools with an index of .2 or more are eligible for at-risk funds. In 1994, this limited the number of schools receiving such funds to 68 or 23 percent of the 294 school corporations in the state. Note, however, that because 1994 allowable state and local revenues are built on 1993 revenue levels, each school corporation that received at-risk funds in 1993 will continue to receive those amounts in its future revenue base.

State and Local Shares: Local school corporations are responsible for any costs of the program over the amount received from the state.

Extent of Participation: 68 school corporations.

Preschool Special Education

Funding in 1993-94: $13.3 million (less than 1.0% of total state school aid).

Description: School corporations are required to offer special education to all preschool handicapped children.

State and Local Shares: School corporations must impose a property tax rate of $.01. The state then distributes enough dollars to provide $2,750 for each preschool handicapped child. The formula is a foundation level program with a $.01 qualifier.

Extent of Participation: 294 school corporations.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $5.9 million (less than 1.0% of total state school aid).

Description: The purpose of this program is to encourage school corporations to develop and implement gifted/talented education programs. Schools apply for one of three noncompetitive grants: planning, implementation, or continuation.

State and Local Shares: Approximately $4.9 million is distributed to local schools. The remainder goes for administrative and contract services.

Extent of Participation: 264 school corporations.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $39.4 million (1.1% of total state school aid).

Description: Vocational education, like special education, is a categorical flat-grant program, but is added to the basic grant formula for calculation of the overall minimum guarantee. An additional pupil count (APC) is provided for students participating in vocational programs. This excess cost index ranges from 0.09 to 0.48 depending on the nature of the vocational program.

State and Local Shares: In 1994, the sum of the APCs is multiplied by $1,430 to arrive at the state share. The local share is equal to the costs not covered by the state share.

Extent of Participation: 294 school corporations.

Prime Time Program

Funding in 1993-94: $72.3 million (2.6% of total state school aid).

Description: The Prime Time program and fund were established to provide money to encourage school corporations to lower, on a corporation average, the pupil/teacher ratio in grades K-3, while at least maintaining the existing pupil/teacher ratio in grades 4-6. Under certain circumstances, classroom instructional aides may be counted as teachers.

State and Local Shares: A school corporation receives $24,500 for each added full-time teacher equivalent (FTE). For kindergarten and Grade 1, the necessary FTE is determined by dividing the current student count (ADM) by 18 and then subtracting from that quotient the FTE employed in the base year. The base year is the year before the year in which the corporation began participation in the Prime Time program. For Grades 2 and 3, the ADM is divided by 20, and the same computation is made.

The local share is the difference between the state distribution and the amount necessary to provide the program. On the state average, the state and local shares are each 50 percent.

Extent of Participation: 294 school corporations.

Indiana Statewide Testing for Educational Progress (ISTEP)

Funding in 1993-94: $12.0 million (less than 1.0% of total state school aid).

Description: ISTEP is a broad-based achievement testing plan to provide school corporations a means of assessing their overall educational programs. Students in Grades 1,2,3,6,8,9 and 11 who are eligible for classroom instruction in English/language arts and mathematics are required to take the ISTEP administered each spring.

Extended Learning Program: Students in Grades 1,2,3,6, and 8 who fall below the state achievement standard prescribed by the State Board of Education are eligible for ISTEP remedial programs and are required to attend, unless granted a waiver by local administrators and teachers. Additionally, students who score above the state achievement standard but below locally established standards, may also be required by local administrators and teachers to attend remedial programs.

State and Local Shares: The state share is equal to the number of students enrolled for remediation multiplied by $425. No local share is required. However, corporations are required to employ a sufficient number of teachers so that no class is larger than ten. Students in Grades 1,2,3,6, and 8 are eligible for remediation funding.

Indiana Pupil Assessment System

Beginning in 1995, ISTEP will be replaced by a new testing system called the Indiana Performance Assessment for Student Success (IPASS).

Description: The new assessment structure will be based upon Essential Skills Content Standards which are updated versions of the state's proficiency statement of what abilities students should demonstrate in mathematics and language arts. The 10th grade assessment (the Gateway Test) is a high school exit test and is prerequisite for a diploma. Other mandatory grade level tests are at grades 3,4,8, and 12. Testing formats will incorporate constructed response, multiple choice, and written explanation. Portfolio assessment, professional development, and public awareness are also components of IPASS. Remediation of students performing below expected standards is expected to be a high cost item and, at the time of this writing, none of the IPASS has been funded by the General Assembly. IPASS components and funding will be a major legislative issue in 1995.

Summer School

Funding in 1993-94: $14.8 million (less than 1.0% of total state school aid).

Description: Summer educational programs approved by the State Board of Education are reimbursed at a rate of 105 percent of instructional costs. Instructional costs are teacher and teacher aide salaries. Reimbursement is based on the requirement that there will be an initial enrollment of 15 students per class. In the event the total reimbursement exceeds the appropriation available, all claims are reduced proportionately.

State and Local Shares: The state share is 73 percent of the eligible costs. The local share is all summer school costs not covered by state reimbursement. The reimbursable curricula exclude driver education and motorcycle safety education.

Extent of Participation: 294 school corporations.

School Textbook Reimbursement Contingency Fund

Funding in 1993-94: $7.5 million (less than 1.0% of total state school aid).

Description: Parents are expected to pay textbook and related school fees. The School Textbook Reimbursement Contingency Fund was established to enable school corporations and accredited non-public schools to receive a reimbursement for textbook and related school fees for children who meet federal free lunch standards.

State and Local Shares: School corporations and accredited non-public schools receive 20 percent of the cost of textbooks as listed on the adoption list, 100 percent of the cost of workbooks that accompany adopted textbooks, and 100 percent of consumable textbooks that are state adopted. The cost of textbooks used in gifted and talented education and in special education are reimbursed based on amortization of the book over the years it is to be used. In actual practice, appropriations for this fund are sufficient to pay only about 65 percent of the claims made against it. The local school corporation must pay the balance after state reimbursement.

Extent of Participation: 294 school corporations and 151 accredited non-public schools.

Performance-Based Awards

Funding in 1993-94: $3.2 million (less than 1.0% of total state school aid).

Description: The Indiana School Improvement Award Program rewards individual schools (not school corporations) for demonstrating growth in student performance areas and encourages continued improvement. The money may be expended for any educational purpose for the school that earned the award, but it cannot be spent for athletics or for salaries or salary bonuses for school personnel.

State and Local Shares: The state distributes the appropriation based on a calculation that includes improvements in attendance, graduation rates, and ISTEP scores. Individual schools must demonstrate growth in four student performance areas in order to receive award money.

Extent of Participation: 1,032 schools (of a total of 1,777) received cash awards.

Beginning Teacher Internship

Funding in 1993-94: $1.3 million (less than 1.0% of total state school aid).

Description: This beginning teachers' mentor program provides for experienced teachers to serve as mentors for beginning teachers. Stipends of $600 per year are paid to mentor teachers.

Extent of Participation: 276 school corporations and 2,300 mentor teachers in public and non-public schools.

Court Ordered Desegregation

Funding in 1993-94: $15.5 million (less than 1.0% of total state school aid).

Description: This allocation was ordered by a federal district court judge for the Southern District of Indiana as part of the Indianapolis Public School (IPS) school desegregation order. Funds go to IPS and to the six suburban Marion County school corporations to which minority IPS students are transported. IPS also pays considerable transfer tuition for the 5,390 minority children transported to these suburban school in 1993-94.

State and Local Shares: There is no required local share for the receiving school districts. IPS paid an additional $27 million in transfer tuition.

Extent of Participation: IPS and six adjoining Marion County school corporations.

Regional Service Centers

Funding in 1993-94: $1.9 million (less than 1.0% of total state school aid).

Description: Nine education service centers allow 241 school corporations with more than 545,000 students to cooperatively purchase media, professional development, and technology services. The allocation is based upon a core service formula based on ADM, geographic territory, and the number of school corporations served.

Extent of Participation: 241 of school corporations.

Indiana 2000

Funding in 1993-94: $0.6 million (less than 1.0% of total state school aid).

Description: The money is distributed for innovative school restructuring programs. The grants are competitive. Schools that receive these grants may create site-based councils and are encouraged to adopt sound new learning environments.

Extent of Participation: 170 individual schools are designated Indiana 2000 schools by the State Board of Education.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

See Section X — Other Categorical Programs: Textbook Assistance and Beginning Teacher Internship.

XII. EARLY CHILDHOOD EDUCATION

None other than pre-school special education.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

The property tax is the principal local revenue source for schools. In 1993-94, it generated $2.2 billion for schools or about 41 percent of total state and local school tax revenue. All real property and business personal property is subject to taxation — theoretically at a uniform rate of assessment and taxation. By statute, all property is to be assessed at one-third of true cash value. True cash value is defined by regulations promulgated by the Indiana State Board of Tax Commissioners. These regulations are extremely complex and leave a great deal of discretion in the hands of 1,008 locally elected township trustees or township assessors who are responsible for assessments. There is abundant evidence that assessments are not uniform, not within a county and certainly not statewide.

With the new school distribution formula adopted in 1993, the state is required to perform an assessment ratio study in each school corporation and assign a factor to each corporation that would adjust its ratio of assessed to true cash value to the statewide average. Such a study has been done and will effect school tax rates in 1995.

Income Tax

Counties may adopt one of two county wide income taxes — a County Adjusted Gross Income Tax (CAGIT) or a County Option Income Tax (COIT). The base of either tax is essentially the same, and neither provides significant additional money for schools to spend. CAGIT receipts go to schools, but can only be used to replace property taxes and some COIT money may replace dollars lost because of homestead credits.

Tax Credits and Exemptions

There is increasing use by civil units of local government of property tax abatements and tax increment financing (TIF) districts for economic development purposes, with somewhat negative effects on school budgets and tax rates.

Prior to adoption of the new guaranteed tax base formula, school levies were controlled, not school tax rates. Thus schools were not deprived of revenue because of abatements or TIF districts, but were, in fact, required to impose higher rates on existing taxable property to produce sufficient dollars, creating some unhappiness among owners of that taxable property. The new formula controls tax rates, thus to the extent that property is off the tax roles due to abatements or tax increment financing, schools' local shares will be lower, thus costing the state additional dollars.

Other Sources of Local Tax Revenue

One other significant source of local revenue for schools is the motor vehicle excise tax paid on automobiles, light trucks, and airplanes registered in each of Indiana's 92 counties. The amount of this tax varies from $12 to $1,200 depending on the age and original value of the vehicle. This is actually a state tax with fixed rates collected by the state when vehicles are registered annually, but distributed to local units of government. The revenues are distributed proportionately to each fund in each taxing unit in the taxing district where the vehicle is registered. Total auto excise tax receipts received by schools in 1993 was $160.4 million, about six percent of total local revenues, but the amounts vary greatly among school corporations and depend on what proportion school tax levies are of total tax levies. The majority party in the 1995 Indiana General Assembly campaigned on a promise to reduce the auto excise tax. At the time of this writing the fate of this tax is uncertain. There is also a small tax on financial institutions that generated $12.8 million in 1993.

XIV. TAX AND SPENDING LIMITS

Tax and spending limits are discussed in Section II — The Basic Support Program: How Formula Operates.

Voter Approval of Budgets and Bond Issues

Indiana school corporations are independent municipal corporations. Their budgets are made and adopted by the local school board and are not subject to voter approval. Their budgets are subject to review and possible reduction by the Indiana State Board of Tax Commissioners, a three member body, appointed by the Governor, with ultimate authority for the administration of the property tax in the state.

The issue of approval of bond issues is discussed in Section IV — Capital Outlay and Debt Service: Local Capital Project Financing.

XV. EARMARKED STATE REVENUES

None.

XVI. SPECIAL TOPICS

None.

IOWA

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I. GENERAL BACKGROUND

State

- Iowa's method for financing public elementary and secondary education in the 1993-94 school year dates back to the mid 1960s. Between 1970 and 1972 the Iowa General Assembly modified the 1967 law to achieve the present type of foundation plan. The basic features include a uniform levy requirement, establishing a state foundation base, establishing a maximum on each budget, providing for leveling up of low spending districts, and providing for minimum state aid to each district. Iowa's basic foundation plan has remained somewhat unchanged in concept since 1972-73.

- In 1989, the finance plan was substantially modified with the enactment of a new finance chapter in the code of Iowa, and repealing the existing statute. The new finance plan was implemented in the 1991-92 school year. The new formula was designed to equalize spending per-pupil, provide an enrollment decline cushion, provide advance funding for increasing enrollment districts, provide increased property tax relief, provide for increased local discretion, equalize access to discretionary local revenues, expand the use of selected local levies, and provide for increased use of income taxes as a source of revenue.

- The 1991-92 school year was the first year of a three-year phase in of the new finance formula; however, the momentum of state finance reform and state revenues available to support education was such that the formula was changed for both the 1991-92 and 1992-93 school years. The amount of state aid schools were expecting to receive was reduced by executive order of the Governor and by legislative action for 1991-92 and 1992-93. The Governor reduced all state funding, including schools, by 3.87 percent or $44.1 million during 1991-92. Additional legislative enacted reductions were also made that reduced the 1991-92 state funding by another $6 million to districts with increasing enrollment.

- The finance plan that was implemented in 1993-94 was a substantial revision from the plan passed in 1989. The enrollment decline cushion was eliminated and state aid advances for increasing enrollment districts were no longer provided. Future growth in state aid and school districts' budgets will be determined on an annual basis through the political process as opposed to the previously used formula.

- As a result of 1991-92 funding limitations and general state finance reforms of the 1992 legislative session, school districts received approximately $50 million less in state aid in 1992-93 than would have occurred if the current finance plan had not been altered.

- State aid to public schools has increased every year since the foundation plan was implemented in 1972-73. The increases represent real budget growth as well as increases in property tax relief. In 1993-94, state aid to schools was 60.8 percent of the total funding supported through the foundation plan. The total state foundation aid was $1,230.6 million in 1993-94, plus indirect aid of approximately $89.9 million in property tax credits. In addition to the foundation support of the school aid formula, the state provided $80 million direct support for the establishment of an educational excellence program consisting of a minimum salary of $18,000 for teachers, general support for teacher salaries, and support for performance based pay and/or supplemental pay.

- All state aid for schools is appropriated from the state general fund. The primary sources of revenue for the general fund are derived from a sales tax and personal and corporate income taxes. The foundation aid formula received approximately 38 percent of all general fund appropriations in 1993-94. With the inclusion of teacher salary aid and instructional support aid, the percent of state appropriations for foundation aid has increased from the 1972-73 level of 34 percent. However, since the foundation level has increased from 70 percent in 1972-73 to 83 percent in 1993-94, the percent of state appropriations going toward elementary and secondary education has decreased to approximately 30 percent if the increase in property tax relief portion is removed. If the educational excellence program funding is subtracted, the percent of total state revenues going to support K-12 education was 27 percent in 1993-94.

- In 1993-94, the foundation level for regular programs was $2,827 per pupil, or 83 percent of the regular program state cost of $3,406 per pupil. Special education instructional support was $133 with a foundation level of $111. Iowa's foundation plan requires a local effort of $5.40 property tax per $1,000 of taxable valuation.

Local

- In 1993-94, Iowa had 397 school districts: 90 districts were sharing entire grades and programs such that only 358 districts had high school programs. All 397 school districts are supported by 15 intermediate service units, called area education agencies (AEA). The 15 AEAs are fiscally dependent upon the school districts they serve. The funding "flows through" the local district to the agencies. The funding provides for special education support services, media services, and education services. Funds to support the area education agencies are generated as a part of each local school district's budget. The generated amounts are calculated on a per-pupil basis by each district to support special education support services, media services, and education services. The per-pupil amount is determined by a formula in the statute.

- Maximum spending authority is controlled in each district through the foundation plan, plus unspent balances from the prior year, plus actual miscellaneous income. If authorized state aid or property taxes revenues are not actually received, a district may levy for cash reserve to replace the revenues not received.

- The primary local revenue source for school districts is property taxes. In recent years, however, use of and access to income surtaxes to support special levies and programs has increased. The maximum surtax rate is set at 20 percent. Income surtaxes totaled $17.1 million in 1993-94 for the operating fund.

- There is growing pressure at the local, legislative, and executive branch levels to control property tax increases, especially with respect to cities and counties. Expanding budgets using locally derived sources of revenues is becoming more difficult and will continue to be a topic of future legislative action. School district funding has been viewed by some as being on "automatic pilot" in past years. Changes made by the legislature in 1992 made education funding an annual political discussion in the first 30 days of each legislative session.

Funding Summary, 1993-94

Total State Aid (All Programs)		$1,326 million
Grants in aid	1,326 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Tax Revenue		$1,028 million
Property tax revenue	979 million	
Other local source tax revenue	17 million	
Local source non-tax revenue	32 million	
Total Combined State and Local School Revenue		$2,254 million
State Financed Property Tax Credits Attributable to School Taxes	90 million	

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: $1,245.4 million (93.9% of total state school aid).

Nature of Program: Foundation plan, with a second local discretionary tier. The plan is defined in statute as the School Foundation Program under Chapter 257, Code of Iowa, 1993. Under the second tier, districts may increase their budgets by up to 10 percent through an "instructional support" levy. The instructional support levy is a percentage equalizing plan with the state participation at 25 percent for an average wealth district.

Allocation Units: Pupils. The resident pupil enrollment as of the third Friday in September in the year prior to the year in which the budget is implemented is used as the pupil count. The pupil count is used to calculate the total district cost. Total district cost is calculated by multiplying district cost per pupil times weighted enrollment. The September 1992 enrollment is the basic enrollment used in the 1993-94 district cost calculation and is the enrollment to which adjustments are made. Total district weighted enrollment for the 1993-94 year was 548,680.5 compared to an actual enrollment of 497,000.3 in September 1993.

Local Fiscal Capacity: Equalized taxable property valuation are used as the measure of local fiscal capacity in the basic formula. If a district chooses to use the second tier of funding, a surtax on state income tax paid may also be used.

How Formula Operates: Local school district funding is primarily determined by the number of students within the district and the district's cost per pupil. A district's basic budget is calculated by multiplying a district cost per-pupil amount times the total weighted enrollment.

The district cost per-pupil amount is based upon the historical per-pupil spending in that district plus a per-pupil growth amount each year. A state cost amount per pupil is used to calculate the annual allowable growth amount, as well as produce the floor amount per pupil for each district. In 1993-94, the state regular program cost per pupil was $3,406. All districts cost per pupil are at or above the state cost per pupil.

The state cost per pupil, which is the basis for determining the foundation level and state aid, is increased each year by an allowable growth amount per pupil. The allowable growth amount is determined by multiplying an allowable growth rate by the state cost per pupil. The allowable growth amount is added to each district's per pupil cost. Until the 1993-94 budget, the allowable growth rate had been calculated by averaging the rate of change in general fund state revenues over a two-year time period and by averaging the rate of change in the gross national product implicit price deflator. If revenue rate changes were below the deflator rate changes then the revenue change rates were used, otherwise the average of the two averages are used. Beginning with the 1993-94 school year, allowable growth is enacted by the legislature within 30 days of the Governor's budget message to the General Assembly. The legislature must act by March 1st of each year. Historically, the allowable growth was announced on September 15th of the base year. The change in the date when allowable growth is known and how it will be determined are two of the most significant changes which occurred in school finance in recent years. Allowable growth amounts and enrollment changes are the two key factors in budget growth.

Maximum spending authority is controlled in each district through the foundation plan. The funding sources for the maximum spending authority include state aid, property taxes, unspent balances from the prior year, plus actual miscellaneous income. The controlled expenditure has resulted in greater equity in expenditures but less local discretion. Once spending authority has been granted it is not removed even if authorized state aid or property taxes revenues are not actually received. Thus if an across-the-board state aid cut is made, spending authority is not reduced. A district may levy for a cash reserve (property taxes) to replace any revenues not received.

State Share: A uniform property tax levy of $5.40 per $1,000 assessed valuation is required of all districts. The amount raised from the uniform levy is subtracted from the state supported foundation level. The difference is the amount of state aid a district will receive. Each district is guaranteed $300 per pupil state aid. The foundation level is based upon 83 percent of the state cost per pupil for the regular program and 79 percent for special education and special education support. In 1993-94 the foundation level for regular program cost was $2,827 per pupil and $2,691 for special education instruction. The AEA special education support cost was $151 per pupil and the foundation level was $119 per pupil.

Local Share: The local share of the general foundation plan is derived from property taxes raised by the uniform levy and property taxes required for the amount of difference between the total district cost and the foundation level. The uniform levy raised $396.3 million and the additional levy raised $397.2 million in 1993-94.

Under the second tier of funding, a district may increase its spending authority by up to ten percent of its regular program guaranteed budget. In 1993-94, 203 districts used this optional funding. The money generated may be used for any general fund purpose. Authority to participate in the program may be through board action or through a referendum. If authority to participate in the program is approved by a vote of the electorate, the maximum number of years the levy can remain in place without additional approval is ten years. The board may approve the implementation of the instructional support program without voter approval for a period of up to five years. Board action is subject to a petition that may call for an election. The board determines the mix of income surtaxes and property taxes, with a maximum surtax rate of 20 percent. The state aid amount is based upon a percentage equalizing plan of 25 percent of the amount to be raised. However, state aid has been frozen at $14.8 million. If fully funded the state aid requirement would be $17.4 million.

Weighting Procedures: The total weighted enrollment is the sum of the basic September enrollment, a supplemental pupil weighting for students in an English as a Second Language program, a supplemental pupil weighting for shared administrators, a supplemental pupil weighting for districts sharing pupils or teachers, a supplemental pupil weighting for reorganized districts, and a weighting for special education students.

Students identified by the district as having limited English proficiency are weighted .19 for budget purposes and may be weighted for up to three years.

Students who are involved in a sharing situation with other districts are weighted .48 times the percent of time they are in the sharing situation. If a teacher is shared, the students taught by that teacher are weighted .48 times the percent of time they are with the teacher. Students involved in a "whole grade" sharing with another district, i.e. grades 5 and 6 are sent to another district all day every day, are weighted 0.1. Pupils enrolled in a district having a shared superintendent are weighted .48 up to a maximum cumulative weight of 7.5. Districts sharing administrators other than superintendents prior to October 1, 1989, are permitted to continue a weighting of .47 up to a maximum total weight of 15. All new weightings were sunset effective July 1, 1991, except individual pupil/teacher sharing. However, if a district reorganized, they may carry their supplemental weighting into the reorganized district for five years.

Students receiving special education are assigned a weight of .68, 1.35, or 2.54 in addition to the 1.0 basic count. These weights are calculated to generate sufficient funds to cover the excess cost of special education.

Adjustments for Special Factors: Special Provisions*:* The regular program budget of each district is guaranteed to be at the same level in 1993-94 as it was in 1992-93. The guarantee was extended by the 1993 General Assembly to continue through the 1995-96 school year. The basic regular program budgets were guaranteed to grow at least one percent between 1989-90 to 1990-91. Since 1990-91, budgets have been guaranteed at the prior year's level. Funding for the guarantee is paid entirely from property taxes. Prior to funding formula changes in 1989, the guarantee was built into the budget enrollment, which in turn resulted in the guarantee being part of the foundation amount. A significant change made in 1992 was the elimination of the advance funding concept for increasing enrollment districts. Prior to 1992 districts that experienced an increase in their actual enrollment in September above their previously calculated budget enrollment were given additional state aid equal to the district cost per pupil times the increased enrollment. This advance was adjusted the following year to achieve the same mix of state aid and property taxes as if the students had been counted when the budget was built.

Special incentives were provided to districts that reorganized prior to July 1, 1994, and will be gradually phased out by July 1998. The uniform property tax levy is reduced to $4.40 per $1,000 assessed valuation the first year of the reorganization and increased 20 cents per year for five years. Districts that reorganize also are allowed to maintain the supplemental weights they had for sharing in the year prior to reorganization for five years.

A special provision of Iowa's school aid and school budgeting is a state-level School Budget Review Committee. The committee provides relief for unique and unusual situations not covered under the basic foundation plan. To provide the relief the committee has the authority to grant districts increases in spending authority, which may result in increases in property taxes. The five-member committee annually reviews areas such as the special education weighting plan and adjusts the weights as the committee deems necessary. If the special education expenditures exceeded revenues, as has been the case in recent years, additional allowable growth may be granted. This additional growth requires an increase in cash reserve property taxes or use of cash balances.

Aid Distribution Schedule: State aid is to be paid to school districts in ten equal installments beginning on September 15th. However the Code of Iowa provides that the Department of Management will take into consideration the relative cash and budget position of the state in determining if payments are to be made. In 1993-94, districts received only one-half of their May payment in May, and no state aid payment in June. The payments were made up at the end of July.

Districts Off Formula: None

III. TRANSPORTATION

Description: Transportation is not funded separately for public school districts. When the current finance plan was first enacted the total general fund expenditures of districts were included in calculating each district's cost per-pupil and the state cost per-pupil. This included transportation expenditures. Public school districts provide, contract for, or reimburse parents for the cost of providing transportation for non-public students. In 1993-94, $6.3 million was available to pay public schools providing or contracting for transportation to non-public students. Parents who provide their own transportation for children attending a non-public school submit their claims to the public school district. The public school district submits its claim to the state.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

State aid is not provided for either capital outlay or debt service under the schoolhouse fund. In 1993-94, the property tax was the primary source of revenue for debt retirement and permissible activities under the schoolhouse fund group.

Local Capital Project Financing

Bonds/Debt Service Retirement

Funding in 1993-94: $58.6 million in local property taxes.

Description: A local board may only issue bonds if 60 percent of the electorate approve. The maximum bonded indebtedness is five percent of the district's assessed valuation. The ***maximum length of any bond is 20 years. In 1993-94, 176 districts levied property taxes to retire bonds. Bonds issued by school districts are subject to the provisions of Iowa Code Chapter 75 and 76, Authorization and Sale of Public Bonds, Provisions Related To The Public Bonds And Debt Service (Statutes: Chapters 296, Indebtedness of School Districts; 298 School Taxes and Bonds).***

Schoolhouse Levy

Funding in 1993-94: $26.7 million in local property taxes.

Description: Although districts may no longer initiate new 67.5 cent levies, districts that had such a levy approved by the voters prior to the new finance law in 1989 may continue until the authorization expires. With voter approval, districts could levy up to 67.5 cents per $1,000 taxable valuation for capital related activities under this schoolhouse fund levy. This levy may have been requested for up to ten years and boards could borrow against anticipated revenue from the schoolhouse levy. Permissible activities included purchase of grounds, construction of buildings, repairing or remodeling, expanding buildings, opening roads, repairing roads, improving grounds or facilities, and renting facilities (Statute: Chapter 278.1(7), Power of Electors).

V. TEACHER RETIREMENT

Public school employees are covered under Iowa Public Employees Retirement System (IPERS), Chapter 97B, Code of Iowa. Contributions to the IPERS system or a district's previously established retirement system are made by the employees and the district. The state does not appropriate funds for the retirement system for teachers or any other state employee. Contributions to FICA (social security and medicare tax) also are paid by the local school district, not the state. In calendar year 1993 and 1994, an employee contributed 3.79 percent of their covered wages to the retirement system and the employer contributed 5.75 percent of the employee's covered wages. Wages were covered up to $35,000 in calendar year 1993 and $38,000 in 1994 (Statute: Chapter 279.46, Retirement incentives—tax).

VI. SPECIAL EDUCATION

Funding in 1993-94: $235.9 million (17.8% of total state school aid).

Description: Funding for special education instruction is included as part of the basic foundation plan. School districts are funded on the basis of weighted enrollment, which includes the weighting for special education. Students receiving special education are assigned a weight of .68, 1.35, or 2.54 in addition to the base 1.0 count. These three weights are calculated to generate sufficient funds to cover the excess cost of special education. If the excess is not covered and districts incur a deficit, they may be granted additional allowable growth by the School Budget Review Committee to cover the deficit. Their additional allowable growth will be covered by property taxes. If a district has an unspent balance of special education funds, the balance reverts to the state to be used by districts' incurring a deficit. Effective July 1, 1994, districts may carry over ten percent of their unspent special education balance.

The financial amounts associated with the weights times district cost are in addition to the regular program amounts. The net impact of the special education weightings through the formula is that the 79 percent of the cost of special education is paid by the state. In addition to the direct instructional support, special education is also supported and funded through Iowa's area education agencies (AEAs). Using the weighted enrollment each district generates funds for the AEA. The weighted enrollment is multiplied by the AEA instructional amount per-pupil. Seventy-nine percent of special education support costs also are paid by the state (Statute: Chapters 442, School Foundation Program; 281, Education of Children requiring Special Education; 273, Area Education Agencies).

State Share: The state foundation aid for direct instruction was $121.7 million. The state foundation aid for instructional support services through the area education agencies was $64.4 million (See Section X—Area Education Agencies).

Local Share: Local property taxes for special education instruction was $32.4 million and $49.3 for special education support services.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

No state aid is provided for gifted and talented programs. Gifted and talented programs are funded at the local level.

Funding in 1993-94: Funded at the local level at $11.2 million in property taxes.

Description: In 1993-94, 334 districts asked the School Budget Review Committee for additional allowable growth to enable them to pay for their gifted and talented programs. The additional allowable growth is funded through property taxes. Each gifted and talented education program and budget is approved by the Department of Education. Up to 75 percent of the program's budget may come from the additional property taxes. The remainder must be supported from the general operating funds of the district. For funding purposes not more than three percent of a district's enrollment may be identified as talented and gifted (Statute: Chapter 442.35, Funding — Gifted and Talented Programs).

State Share: The state does not directly share in the cost of talented and gifted programs.

Local Share: 75 percent of the funds come from property taxes; 25 percent of the funding comes from the district's general operating budget.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $2.1 million (less than 1.0% of total state school aid).
$0.4 million in property taxes.

Description: Students identified by the district as having limited English proficiency are weighted .19 for budget purposes. This supplementary weighting provision was first implemented by the legislature in the 1991-92 school year. School districts requiring additional funds for limited English speaking students may count these students for up to three years for funding purposes. Districts may also ask permission of the School Budget Review Committee to levy additional property taxes for this program (Statute: Chapters 442, School Foundation Program; 280.4, Medium of Instruction — Special Instruction).

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $3.7 million (less than 1.0% of total state school aid).

Description: The state appropriated $3.7 million for the 1993-94 school year for the development and conducting of both continuing and new vocational educational programs, services and activities of vocational education programs at secondary schools. Funds may be used for the purchase of instructional equipment for vocational and technical programs. Funds are granted to school districts on an application basis.

Area Education Agencies

Funding in 1993-94: $64.4 million (4.9% of total state school aid).
$49.3 million in property taxes.

Description: Area education agencies (AEA's) serve as intermediate service units to provide special education support services, media services, and educational services. The AEAs are fiscally dependent upon the school districts. The funding formula for AEA's includes separate funding on a per-pupil basis for each of the three service areas. Media and education services are funding entirely from property taxes. Special education support services funding is included in the state aid foundation plan. The state support level for special education is 79 percent. In 1993-94 the state support was $64.4 million for special education. Property taxes for special education support, media and educational services were $17.4, $15.2 and $16.8 million respectively. (Statute: Chapters 442, School Foundation Program; 273, Area Education Agencies)

Educational Excellence Program for Teachers

Funding in 1993-94: $80.1 million (6.0% of total state school aid).

Description: State funds are provided to guarantee a minimum salary for teachers of $18,000, provide salary increases for teachers, and to provide funding for performance based pay, supplemental pay for extra work, or a combination of the two. The program was entirely state funded. Approximately $11 million was expended for guaranteeing minimum salaries. Approximately $40 million was allocated on a per-pupil basis, to provide for salary increases, and the remainder is allocated also on a per-pupil basis but conditional on the approval of a plan and budget. All districts participate in this program (Statute: Chapter 294A, Educational Excellence Program for Teachers).

Instructional Support Program

Funding in 1993-94: $14.8 million (1.1% of total state school aid).
$33.2 million in property tax
$16.6 million in income surtax

Description: In 1993-94, 203 districts used their option to implement an instructional support program. Districts may increase their budgets by up to ten percent of the regular program cost including the guarantee. The money generated may be used for and general fund purpose (Statute: Chapter 257.18, Instructional Support Program).

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-94: $6.9 million (less than 1.0% of total state school aid).

Description: State aid is provided for text books and for transportation for children attending approved non-public schools. The textbook aid is based upon the claims submitted by a public school district for the textbooks requested by the non-public school and purchased by the public school district. The claim is paid at the lesser of the actual cost or the average per-pupil amount expended by the local public school district. In 1993-94, $0.6 million was appropriated for textbook aid.

State aid is provided for the transportation of children attending an approved non-public school. Districts are reimbursed based upon the claims submitted to the state for directly providing, contracting to provide the transportation, or for reimbursing the parents. In 1993-94, $6.3 million was appropriated for non-public transportation.

Non-public students also may attend a public school on a shared-time bases. These students are counted by the districts on a full-time equivalency bases as part of their basic fall enrollment. The program is provided by the public district with the cost supported at the foundation level (83 percent). For the 1993-94 budget, the shared time enrollment count was 796 out of a total non-public enrollment of 45,010. This enrollment count generated approximately $19.3 million in state aid and $4.0 million in property taxes through the formula.

XII. EARLY CHILDHOOD EDUCATION

At Risk/Early Childhood Funding

Funding in 1993-94: $8.7 million (less than 1.0% of total state school aid).

Description: State funds are appropriated to provide grants for programs serving low-income families with very young children (birth through age three), for programs serving low income pre-school children, for public school programs providing pre-school programs for children from low-income families, for programs serving elementary school children in schools with high proportions of at-risk students, and for school based youth services programs at middle schools and high schools. This program was in its first year of funding in 1990-91 (Statute: Chapter 279.15, Programs For At-Risk Children).

XIII. LOCAL SCHOOL REVENUE

The primary source of revenue for local school districts is property taxes. However, local school districts may, through discretionary funding programs, impose income surtaxes. Local districts also generate a small amount of funds by investing revenues.

Property Tax

Property tax revenues from general fund revenues and schoolhouse revenues were $863 million in 1993-94. Debt service totaled $46 million of that amount.

Property values are equalized by the Director of the Iowa Department of Revenue and Finance every two years by increasing or decreasing the aggregate valuations for certain classes of property within the 112 assessing jurisdictions in the state. Assessments are adjusted to actual values, except that agriculture values are based on productivity. Adjustments are based on assessment/sales ratio studies as well as investigations and appraisals made by the Department of Revenue. For agriculture realty, productivity and related prices and expenses are used to determine assessed values. If report valuations are more than five percent above or below those determined by the state, the state orders a percentage adjustment on the effected class of property.

Income Tax

Income surtaxes may be used in concert with other funding sources in five areas: (1) instructional support programs, (2) physical plant and equipment levies, (3) asbestos removal, (4) educational improvement levy, and (5) enrichment levies. The enrichment levy has been sunset and only three districts were using the levy in 1993-94. The income surtax rate for the enrichment levy was determined in relation to the taxable valuation of the district. The proportionate mix was a property tax of 27 cents per $1,000 taxable valuation for each five percent of income surtax.

For the instructional support program, the educational improvement levy, the physical plant and equipment levy, and asbestos removal levy, the local board determines the mix of income surtaxes and property taxes. However, the total income surtax rate for all surtax levies can not exceed 20 percent.

Income surtaxes are collected by the Iowa Department of Revenue and Finance, and are held in a special account. Income surtax rates apply for the calendar year in which the tax was imposed. Income surtaxes for the 1993-94 school year are collected by a school district in approximately October 1994 and October 1995.

Tax Credits and Exemptions

Tax credits are provided for agriculture lands and family farms ($43.5 million) and homesteads ($46.4 million). The $89.9 million by which school taxes are lowered through these tax credits is estimated using state totals of property taxes and tax credits (Statute: Chapters 425, Homestead Tax Credit; 426, Agriculture Land Tax Credit).

XIV. TAX AND SPENDING LIMITS

Tax Limits

Tax limits are imposed on a levy by levy basis as described below (also see Section IV—Local Capital Project Financing.) There are no state imposed limits on the total property taxes that can be levied for school districts. The cumulative maximum surtax rate is 20 percent.

- *Physical Plant and Equipment Levy*

Funded at the local level by $28.3 million in local property taxes and $1.2 million in income surtaxes.

Description: Up to $1.00 per $1,000 taxable valuation may be levied under the general area of physical plant and equipment. The board may enact a 33 cent per $1,000 taxable valuation levy for expenditures under the physical plant and equipment levy and with voter approval districts may add an additional levy of 67 cents per $1,000 taxable valuation. This new levy created under the finance formula changes in 1989 is a combination of the previous site and schoolhouse fund levies. All uses previously permitted under either the site or schoolhouse fund were included. Two new uses were permitted: the purchase of school buses and the purchase of single unit pieces of equipment or technology system exceeding $5,000 in value. Permitted uses include the purchase or improvement of sites or major building repair. However, the funds may not be used for new construction of school buildings or administration buildings without voter approval. Building repair includes reconstruction, improvement or remodeling to existing schoolhouses or additions to schoolhouses, and expenditures for energy conservation. Also permissible is the purchase of grounds, construction of buildings, repairing or remodeling, expanding buildings, opening roads, repairing roads, improving grounds or facilities, and renting facilities.

The voter approved portion of this levy may be requested for up to ten years. The board may borrow against anticipated revenue from the voter approved levy and the levy may be a combination of property taxes and income surtaxes (Statute: Chapter 298.2, Imposition of physical plant and equipment levy).

Educational and Recreational Tax

Funded at the local level by $1.1 million in local property taxes.

Description: With voter approval the board may levy up to 13.5 cents per $1,000 valuation levy for the purchase of recreation places and playgrounds in public school buildings and grounds of the district. The board may authorize the use of the funds for recreational programs. The funds may also be used to provide for community education programs, under the Iowa Community Education Act. Once enacted the levy remains in place until rescinded by the board of directors or by the voters of the district. In 1993-94, 16 districts used this source of funds (Statute: Chapter 300, Educational and Recreational Tax).

Drop-out and Drop-out Prevention Programs

Funded at the local level by $14.5 million in property taxes.

Description: Permission to levy property taxes for drop-out and drop-out prevention programs is granted by the state level School Budget review Committee. Each program and budget is approved by the Department of Education. Up to 75 percent on the program's budget may come from the addition property taxes. The remainder must be supported from the general operating funds of the district. In 1993-94, 105 districts levied additional property taxes to fund their drop-out programs (Statute: Chapter 442.54, Funding for Programs for Returning Dropouts and Dropout Prevention).

SBRC Additional Allowable Growth

Funded at the local level by $2.0 million in property taxes.

Description: The basic funding plan for the state includes a budget and tax oversight process, which is administered through a state level committee. This five member committee, which is known as the School Budget Review Committee, provides a process by which districts can seek relief due to unique and unusual circumstances. The committee has the power to grant additional spending authority and thus approve increases in property taxes. The most frequent requests for increased budgets are for talented and gifted programs, drop-out and drop-out prevention programs, educational improvement programs, special education deficits, enrollment changes due to open enrollment, enrollment increases, or non-public enrollments impact. The SBRC also reviews the extent to which districts levy for cash reserve and has established the maximum levy permissible (Statute: Chapter 442.13, Duties of the SBRC Committee).

Enrichment Levy

Funded at the local level by $.4 million in property tax and $.4 million in income surtax.

Description: An enrichment levy was available to districts under Chapter 442 prior to the new finance law implemented in 1991-92. Districts using the enrichment were permitted to continue the use of the levy until it expired. In 1993-94, eight districts were using the enrichment levy. The enrichment levy could be used to increase a budget by up to 15 percent of the state cost per pupil times their budget enrollment. The purpose for the enrichment levy was originally to provide funding for educational research, curriculum maintenance, or development of innovative programs; however, this restriction was later dropped. The enrichment levy must have been approved by a majority of the district's electorate. The financing support for the enrichment is a combination of income surtaxes and property taxes. The proportionate mix is a property tax of 27 cents per $1,000 taxable valuation for each five percent of income surtax. The maximum tax is a 20 percent income surtax and a $1.08 per $1,000 of taxable valuation property tax. Districts using the enrichment levy may not also use the instructional support amount (Statute: Chapter 442.14, Additional Enrichment Amount).

Educational Improvement

Funded at the local level by $.2 million in property tax and $.1 million in income surtax.

Description: One of the provisions of the new school finance law was to decrease the district cost per pupil of the districts that had high per-pupil spend levels. Maximum district cost per pupil were established at 110 percent of the state cost in 1991-92 and will gradually be reduced to five percent of the state cost over time. Any district that was above 110 percent was allowed to establish a levy of the board's choosing to replace all, part or generate more than they previously were receiving. Four districts have enacted the educational improvement levy. This levy will remain in place until the board acts to remove it or a referendum is held to remove it. In 1993, this section was amended to permit the use of income surtaxes to support the educational improvement program (Statute: Chapter 257.29, Educational improvement levy).

Management Levy

Funded at the local level by $37.7 million in property taxes.

Description: The management levy is a combination of what use to be the insurance levy, the unemployment levy, and the early retirement levy. Districts may levy to pay the cost of liability insurance premiums, tort judgements against the district, a self insurance program, cost of a local government risk pool to protect the school corporation against tort liability, loss of property, or any other risk associated with the operation of the school district.

Districts may levy to pay for early retirement incentives such as a monetary bonus, and the continuation of health or medical insurance coverage. The early retirement program is available only for employees between 59- and 65-years of age. Districts may also levy to pay for unemployment insurance premiums or unemployment claims (Statute: Chapter: 294.4 District management levy).

Cash Reserve Levy

Funded at the local level — $18.4 million.

Description: Districts may levy for cash reserve to enable them to manage their cash flow. The cash reserve does not increase their spending authority or budget. The purpose is to provide cash behind existing budget authority. The cash reserve levy may be used for such items as replacement of state aid not received due to across the board cuts or for property taxes not received due to delinquent payments (Statute: Chapter 298.10, Levy for cash reserve).

Spending Limits

Maximum spending authority is controlled in each district through the foundation plan. The funding sources for the maximum spending authority include state aid, property taxes, unspent balances from the prior year, plus actual miscellaneous income. The controlled expenditure has resulted in greater equity in expenditures but less local discretion. Once spending authority has been granted it is not removed even if authorized state aid or property taxes revenues are not actually received. Thus if an across-the-board state aid cut is made, spending authority is not reduced. A district may levy for a cash reserve (property taxes) to replace any revenues not received.

Voter Approval of Budgets and Bond Issues

Basic school budgets do not require voter approval. Some additional programs may require voter approval depending upon the length of the program or the amount of the levy. If a board elects to participate in an instructional support program for more than five years voter approval is required. However, the board may elect to request a vote for issues of less than five years and voter may elect to request a vote on issues of less than five years.

Approval of the electorate is needed for the imposition of tax to remove or encapsulate asbestos. A simple majority is required.

Up to $1.00 per $1,000 taxable valuation may be levied under the general area of physical plant and equipment. The board may enact a 33 cent per $1,000 taxable valuation levy for expenditures under the physical plant and equipment levy and with voter approval districts may add an additional levy of 67 cents per $1,000 taxable valuation. A simple majority is required.

With voter approval the board may levy up to 13.5 cents per $1000 valuation levy for the purchase of recreation places and playgrounds in public school buildings and grounds of the district. Once enacted the levy remains in place until rescinded by the board of directors or by the voters of the district.

A local board may only issue bonds if 60 percent of the electorate approve. The maximum bonded indebtedness is 5 percent of the district's assessed valuation. The maximum length of any bond is 20 years.

XV. EARMARKED STATE REVENUE

No state funds are specifically earmarked for funding elementary and secondary school districts.

XVI. SPECIAL TOPICS

Open Enrollment

In 1988, the Iowa General Assembly enacted legislation to provide for the interdistrict open enrollment of students. In the 1990-91 school year, which was the first year students actually open enrolled, 1,674 students participated, or .35 percent of the total state's enrollment. By 1993-94, 9,170 students were open enrolled, approximately two percent of the total enrollment. Funding for open enrolled students is provided by the sending district. Both state aid and property taxes are forwarded to the receiving district on a per pupil basis. The basic amount forwarded to the receiving district is the regular program district cost per pupil plus the per pupil funding received for educational excellence fund or additional funding received for special education weighting.

KANSAS

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I. GENERAL BACKGROUND

State

- In 1992, the Kansas Legislature enacted new school finance legislation. The 1992 legislature replaced the former School District Equalization Act (SDEA, 1972), which allowed wide differences in tax rates and expenditures, with a new law entitled the School District Finance and Quality Performance Act (SDFQPA, 1992) which rigidly controlled expenditure and tax rate differences. The financing mechanism of the new legislation is known as State Financial Aid (SFA).

- The purpose of the SFA is to ensure equal spending power for similarly situated pupils in school districts under equal tax effort. Aid is determined by multiplying the base state aid per FTE pupil (BSAPP) of a district by the district's adjusted enrollment, as defined by various program weights. Since 1992, the BSAPP has been set at $3,600. The plan includes six pupil count weightings, recognizing learner, program, or school district characteristics believed to contribute to higher costs than can be met by the BSAPP.

- All programs operational in the prior year provide the basis for estimating the next year's allowable budget, subject to local changes in program and changes in district enrollment.

- The state share of general revenue for public schools rose from 25.5 percent to 42.5 percent during the 20 year life of the SDEA. Under the new SDFQPA, the state share rose to 66.2 percent in 1993-94. This change over a short period is attributable in large part to change in the basic school finance support program represented in the new aid plan.

- State funds for public schools are derived through annual appropriations by the legislature during the regular session (January to April).

- The SDFQPA, as state law, dictates both amounts and sources of state and local contributions. State appropriations continue to come from the state's general revenues, increasing dramatically under the new law. Significant change also occurred in amounts of local resources collected in school districts, with some districts contributing much more but with most districts' local share declining significantly. The main local source for funding schools continues to be the school district general fund property tax, but all districts are now required to impose a uniform tax rate: 32 mills in 1992; 33 mills in 1993; and 35 mills in 1994 and thereafter until legislatively adjusted. State aid makes up the difference, if any, between the amount of local resources and the district's allowable budget as calculated under SFA. If local resources exceed the budget amount, the excess local effort is remitted to the state to help finance general state aid to other districts.

- A provision of the law known as Local Option Budget (LOB) permits districts to add up to 25 percent of base budgets, subject to local protest petition and referendum.
- Extensive court review of the SDFQPA occurred when various districts challenged operation of the new law. With the exception of two flaws, the trial court determined that the act met state constitutional standards:
    1. A provision of law that mandated the tax rate for a period of three years exceeded a two-year limitation contained in the Kansas Constitution. Legislation will have to be passed in two-year intervals in order to change the mill levy.
    2. The low enrollment weighting factor was held unconstitutional. Because this provision was so intertwined with other aspects of the formula, the court held that the weighting provision was not severable and that the entire act would have to be declared unconstitutional. However, the holding was stayed until July 1, 1995, to allow the legislature to amend the provisions of the school finance law, with modification to low enrollment weighting.
- The findings of the trial court were appealed by litigants to the original suits, with one set of litigants arguing that local control had been unconstitutionally denied, while others sought to uphold the trial court's findings on low enrollment weighting. A Supreme Court decision was expected in December 1994.
- State law now requires districts to zero out the general fund at the end of the fiscal year to avoid recapture of unexpended revenues. Previously districts carried over 40 to 50 percent of their budgets.
- The state pays the local district contribution to the Kansas Public Employee Retirement System (KPERS). In 1993-94, this amounted to $56 million.
- Despite the sweeping changes seen in moving from the SDEA (1972), as amended, to the new SDFQPA (1992), reform continues to be a major concern in school districts, as the new law incorporates both new funding methods and is far more heavily involved in learner outcomes, tying continued funding to successful student performance on state-mandated achievement standards.

Local

- There are 304 independent public school districts. Included in these districts are 353 high schools, 39 junior high schools, 148 middle schools, 918 elementary schools, and 27 special purpose schools.
- For nearly 20 years Kansans supported education through a basic support program called the School District Equalization Act (SDEA, 1972). In October 1991 a district court, in findings presented in advance of trial, warned state policymakers of potential legal problems and advised the legislature to change the law short of trial proceedings. This pronouncement came as a result of four consolidated lawsuits, each grieving different issues. In May 1992, a bill drawn up by a House-Senate conference committee passed both branches of government and was subsequently signed into law. The bill called for all districts to levy 32 mills in 1992-93, 33 mills in 1994-95, and 35 mills thereafter. Designed to raise $349 million in state taxes, the bill simultaneously reduced property taxes statewide by $293 million. New money sources included: (a) an increase in state sales tax from 4.25 percent to 4.9 percent; (b) higher individual and corporate income taxes; (c) existing treasury balances; (d) elimination of sales tax exemptions on services used in construction, utilities used in production, telephone services, trade fixtures sold with buildings, and longterm hotel and motel stays. The bill contained a state-imposed uniform base budget of $3,600 per FTE pupil, weighted to account for additional expenses. Funding for low enrollment, based on a linear transition formula, provided extra monies for districts under 1,900 pupils. Previously high-spending districts were subject to a cap in that any amount over 10 percent of the prior year's budget had to be deducted from the state allotment. Districts losing budget authority were able to add an extra 10 percent, part of which was paid by local property tax. Subject to voter protest petition, these districts were also allowed a 25 percent base budget increase for the 1993-94 school year. A second bill also included an equalization plan to fund bond and interest debt, using a formula based on the statewide median for assessed valuation per pupil.

- The school finance bill also included a Quality Performance Accreditation (QPA) system. This system was based on ten goals framed in measurable terms by defining specific outcomes:
  1. teachers establish high expectations for learning and monitoring achievement through multiple assessment techniques;
  2. schools have a basic mission to prepare learners to live, learn, and work in a global society;
  3. schools provide planned learning activities in an orderly and safe environment conducive to learning;
  4. schools provide instructional leadership, resulting in improved pupil performance in an effective school environment;
  5. pupils have the communication skills necessary to live, learn, and work in a global society;
  6. pupils think creatively and solve problems to live, learn, and work in a global society;
  7. pupils work independently and in groups to live, learn, and work in a global society;
  8. pupils have the physical and emotional well-being to live, learn, and work in a global society;
  9. all staff must engage in ongoing professional development; and
  10. pupils participate in lifelong learning.
- In 1994-95, at least one school in every district must participate in QPA, and in 1995-96 all schools must participate. In order for districts to be eligible for general state aid in 1996-97 and thereafter, each district must evaluate progress toward achieving outcomes and submit an annual report to the State Board of Education.
- As a part of QPA, each school in every district that operates more than one school must establish a school site council. The council provides advice in evaluating state, district, and site performance goals and objectives and in determining methods to be employed at the school site to meet goals and objectives. Site councils were required by January 1, 1993. The statute mandating site councils expires in 1995-96, unless extended by the legislature.
- Before the new finance law, the minimum term required grades 1-11 to attend at least 180 six hour days; for grade 12, a minimum of 175 six hour days. Alternatively, districts could choose 1,080 hours for grades 1-11 and 1,050 hours for grade 12 in any configuration. The new law made the following changes:
  1. 1992-93: grades 1-11 need 181 six-hour days; grade twelve 176 six hour days; kindergarten, 181 two and one-half hour days. In addition at least two days of inservice education must be provided.
  2. 1993-94: grades 1-11 need 183 six hour days; grade twelve 178 six hour days; kindergarten, 183 two and one-half hour days. In addition, at least three days of inservice education for district personnel must be provided.
  3. 1994-95 and thereafter: grades 1-11 need 186 six hour days; grade twelve 181 six hour days; and kindergarten, 186 two and one-half hour days. No number of inservice days is specified.
- The SDFQPA established a 16-member monitoring committee. Twelve members included the following persons or their designees: chair and ranking minority member of the House Committees on Education, Taxation, and Appropriations, and the same for Senate Committees on Education, Assessment and Taxation, and Ways and Means. The remaining four members were to represent the public, with two appointed by the Governor and two by the State Board of Education. These members were to serve at the pleasure of the appointing authority. Responsibilities assigned to the committee were to:
  1. monitor implementation and operation of the SDFQPA and the QPA system;
  2. evaluate the SDFQPA and determine if there is a fair and equitable relationship between the costs of weighted components and assigned weightings;
  3. determine if additional school district operations should be weighted;
  4. evaluate the effect of the act and system on local control;
  5. determine if the act impedes successful accomplishment of the mission for Kansas education;
  6. evaluate the reform and restructuring components of the law and assess their impact;
  7. evaluate the system of financial support, reform, and restructuring of public education in Kansas and in other states to ensure that the Kansas system is efficient and effective;
  8. review the amount of the BSAPP and determine if the amount of SFA for school districts is sufficient to provide quality educational opportunities for Kansas children;

9. explore decreasing LOB authority in conjunction with increases in the BSAPP by adjusting any weighted component, or weighting any additional district operation;
10. explore alternative funding sources; and
11. evaluate state policy regarding qualification of programs for categorical state aid and whether entitlement formulas are equitable.

- The committee made one annual report. Legislative members of the committee voted to let the Commission expire February 1, 1993.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,616 million
Grants in aid	1,560 million	
Teacher retirement contributions	56 million	
FICA	0	
Total Local School Revenue		$694 million
Property tax revenue	589 million	
Other local source tax revenue	105 million	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$2,310 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $1,370 million for State Financial Aid [SFA] and Local Option Budget [LOB] (84.6% of total state school aid).

Nature of Program: High level foundation with weighting scheme for programs, low enrollments, and other selected features. Some categorical funds as described later.

General State Aid (GSA). GSA is the main funding program for districts' entitlement to General State Aid and is based on an enrollment driven formula. A district's spending power, called State Financial Aid (SFA), is determined by multiplying its adjusted (weighted) FTE enrollment by Base State Aid Per Pupil (BSAPP). The statute fixes BSAPP at $3,600 subject to annual legislative review. Adjusted enrollment includes the full-time regular enrollment of pupils in the district after taking into account a declining enrollment feature and six other adjustments (weights) that have been added to reflect higher costs associated with serving certain pupil populations, transporting pupils, operating low enrollment districts, and adding new facilities. Specific weights are for low enrollment (under 1,900 pupils), transportation, vocational education program enrollment, bilingual education program enrollment, at-risk pupils, and operation of new facilities.

Decreasing Enrollment Add-on. When a district's enrollment in the current school year has decreased from the preceding year, transition aid up to 50 percent of pupil attrition is available, except that no adjustment is made for decreases greater than four percent of the enrollment in the preceding school year.

Allocation Units: State aid is calculated on enrollment of full time equivalency (FTE) pupils enrolled on September 20, or the first school day thereafter. The definition of a pupil is: (1) a child regularly enrolled in a district and attending kindergarten or any grade 1-12 maintained by that district; (2) a child regularly enrolled in a district and attending kindergarten or any grade 1-12 in another district in accord with an agreement under K.S.A. 72-8233, as amended; (3) a child regularly enrolled in a district and attending special education services provided by the district for pre-school age exceptional children.

Local Fiscal Capacity: The local district's share of its base allowable budget is, in essence, a credit against its SFA entitlement. Local effort is defined as the sum of the following revenues received in the current school year: (1) proceeds of the school district's general fund property tax levy (32 mills in 1992, 33 mills in 1993, and 35 mills in 1994 and thereafter); (2) unexpended and unencumbered balances remaining in the general fund (except for revenues specifically identified by law as not being operating expenses); (3) unexpended and unencumbered balances remaining in the program weighted funds (except amounts in the vocational fund of a district which is operating an area vocational school); (4) remaining proceeds of the former general fund tax levy prior to its repeal; (5) remaining proceeds of the former transportation fund tax levy prior to its repeal; (6) amounts credited to the school district general fund from industrial revenue bonds and port authority bonds in lieu of tax payments; (6) motor vehicle tax receipts; (7) mineral production tax receipts; and (8) rental/lease vehicle excise tax receipts.

Statewide reappraisal to equalize assessed valuations followed after a 1986 constitutional amendment to classify property by major classes.

***How Formula Operates:* (State Share):**

General State Aid Formula.

The legislature may annually adjust the foundation BSAPP, although it has remained unchanged at $3,600, adjusted for weighting, since formula inception.

Formula for Computing General State Aid:

GSA = State Financial Aid Local Effort

where:

> State Financial Aid (SFA) is BSAPP, i.e., $3,600 per FTE pupil, times adjusted (weighted) enrollment. The $3,600 BSAPP is adjusted by the State Board of Education if legislative appropriation is insufficient to fully fund entitlements. Adjusted enrollment includes the regular enrollment count, including one-half of the number of pupils lost from the preceding year in the case of enrollment decrease (up to a 4.0 percent cap), plus pupil weightings as follows:

Category	*Weighting*
Transportation	Based on density/cost analysis for prior year and number of pupils transported 2.5 miles or more in current year.
Low Enrollment	Under 1,900 based on 1991-92 linear transition schedule. Three groupings qualify for aid: d; 100-299; 300-1,899.
Vocational	0.5
Bilingual	0.2
At Risk	0.05
New Facilities	0.25, two years only for students in new facility.

and

> Local Effort equals revenue from the uniform mill levy, balance in the general fund, balances in program weighted funds (vocational, transportation, and bilingual), proceeds of the general fund and transportation fund levies under the former finance law, revenues from port authority and revenue bonds in lieu of tax payments, mineral production tax receipts, motor vehicle tax receipts, rental/lease vehicle excise tax receipts, nonresident student tuition, and federal impact aid (P.L. 874) in accord with federal law and regulations.

In 1993-94, estimated GSA was $1,300 million, or 70.3 percent of SFA.

Formula for Supplemental General State Aid (SGSA) for Local Option Budget (LOB).

As noted earlier, districts may choose to adopt a Local Option Budget of up to 25 percent of BSAPP subject to protest petition and referendum. For districts adopting LOB, state aid is available depending on eligibility (local ability to pay), with local effort calculated as follows:

Supplemental General State Aid (SGSA) =

[1.0 - (Prior Year AVPP / Prior Year 75th Percentile AVPP)] x District LOB

where: AVPP = assessed valuation per pupil
LOB = permissible local option budget

If LOB is adopted, the district imposes property taxes above the statewide uniform tax rate to fund the balance of the LOB for which general state aid or other local revenues are not available.

The LOB resolution, authorizing the district to levy LOB for up to four years, is subject to a five percent protest petition election.

As the $3,600 BSAPP amount increases by legislative enactment, maximum LOB percentage, initially set at 25 percent of SFA, must be reduced by the same percentage by which BSAPP increases.

In 1993-94, estimated SGSA was $35.9 million, or 24 percent of LOB.

Bond and Interest State Aid.

Enactment of the new SDFQPA was accompanied by the introduction of state assistance to bonded indebtedness, where previously all such costs were borne by the local tax base. For qualifying districts, the following formula grants aid to capital needs:

Capital Improvements State Aid =

District Bond & Interest Payment Obligation For School Year
x State Aid Percentage Factor

where: The state percentage factor is based on a formula providing aid for capital improvements inversely to the AVPP of districts. A state aid computation percentage factor is assigned to the median AVPP of all of school districts. This factor is five percent for contractual bond and interest obligations prior to July 1, 1992, and 25 percent for obligations incurred July 1, 1992, and thereafter. This state aid computation factor is increased or decreased by one percentage point for each $1,000 change in AVPP of a district above or below the median. Local property tax funds the balance of the district's bond and interest obligation. Districts are limited statutorily in the maximum amount of debt that can be incurred. This limitation is a separate provision from the basic school finance law.

In 1993-94, the state share of bonds and interest was $7.4 million.

***How Formula Operates* (Local Share):**

As noted earlier, BSAPP is adjusted by a series of weights for low enrollment, transportation, vocational programs, bilingual programs, at risk programs, and new facilities. All weights were given above. All weights were self-explanatory except the low enrollment weighting, which is developed more fully here:

Low Enrollment Weighting. Under the theory of declining economy of scale for small enrollment districts, the legislature, in SDFQPA, established a low enrollment adjustment for districts with fewer than 1,900 students. The low enrollment weighting was determined by constructing linear transitions between the 1991-92 median budget per pupil of districts having enrollments of 75-125 and 200-399, and between the 1991-92 median budget per pupil of districts having enrollments of 200-399 and 1,900 or more. These cutoffs were retrospectively related to the old SDEA, which contained enrollment categories for the same purpose of recognizing diseconomy of scale but which were widely believed to be discriminatory under the findings of the first court in advance of trial. The new SDFQPA eliminated the enrollment categories, but nonetheless used those old cutoffs as benchmarks for creating the low enrollment weights in the new law. This weighting procedure provided a basis for determining a "schedule amount" for each school district having an enrollment under 1,900. The 1991-92 median budget per pupil in districts with 75-125 enrollment served as the schedule amount for districts with enrollments less than 100. For districts with enrollments of 100-1,800, the schedule amount was determined by a linear transition schedule based on the district's enrollment in the current school year. Increments in the linear schedule for districts with enrollments of 100-299 varied from the increments in the schedule for districts with enrollments of 300-1,899. The amount of the median budget per pupil of districts with enrollments of 1,900 or more is subtracted from the schedule amount determined for each district with an enrollment of less than 1,900. The result is divided by the median budget per pupil of districts with enrollments of 1,900 or more, and the quotient so derived is applied to a district's current enrollment to produce the low enrollment weighting factor. The total result is a table of weights indexed to each incremental change in pupil enrollment. Graphically, the result is the inverse J-curve found in the literature of school finance (see David C. Thompson, et. al. *Fiscal Leadership for Schools: Concepts and Practices* (New York: Longman, 1994) p243).

In 1993-94, the low enrollment weighting accounted for approximately $220 million in formula aid and was the main point of contention on appeal to the Kansas Supreme Court, primarily for its alleged lack of educational justification and for its obvious relationship to the old enrollment categories under the former unconstitutional law.

Adjustments for Special Factors: See other program weights earlier under state share description.

Aid Distribution Schedule: In contrast to the old SDEA, which saw quarterly state aid payments to qualifying districts, the SDFQPA requires each district to submit to the state estimates of funds needed. Whereas, districts previously invested idle funds in a full-scale management of total resources, districts are now dependent on electronic fund transfers to meet their full obligations, as the state now manages aid distribution on a tight disbursement schedule as follows:

July 5 and August 1:	Requested amounts from local districts;
September 1:	9.5 percent of prior year's general state aid entitlement;
October 1 through January 1:	9.5 percent of current year's general state aid entitlement;
February 1:	Remaining amount of current year's general state aid divided by 5.25 percent;
March 1:	Remaining amount of current year's general state aid divided by 4.25 percent;
April 1:	Remaining amount of current year's general state aid divided by 3.25 percent;
May 1:	Remaining amount of current year's general state aid divided by 2.25 percent;
June 15:	Final payment (total entitlement less payments to date).

III. TRANSPORTATION

Funding in 1993-94: Included in General State Aid (GSA) as weighted factor as described below. The former Transportation Fund was abolished under SDFQPA.

Description: The State Board of Education determines expenditures from the preceding year for transporting public and nonpublic school pupils on regular school routes. Calculations are then made to net out a portion of these costs designed to represent 50 percent of the costs of transporting pupils residing less than 2.5 miles from school. The remaining amount is divided by the number of pupils enrolled in the district residing 2.5 miles or more by the usually traveled road from the school attended and for whom transportation was made available by the district. The result (quotient) is the allowable per-pupil cost of transportation. The per-pupil cost of transportation of each district is then plotted on a density-cost graph to which a statistical technique is applied to construct a curve of best fit for all school districts. This procedure recognizes the relative costs of transportation per pupil in sparsely populated areas, as contrasted with costs in densely populated areas. Based on the school district's density (i.e., the number of resident pupils enrolled in the district who reside 2.5 miles or more by the usually traveled road from the school attended divided by the number of square miles of territory in the district), the point on the curve of the best fit is identified for each district. This is the formula per-pupil cost of transportation for that particular district. This figure is divided by the BSAPP and the quotient is multiplied by the number of resident pupils in the current school year living more than 2.5 miles from school and for whom transportation is being provided. This produces the district's transportation weighting enrollment adjustment. This is then included in the weighting system to produce an additional weight per pupil to be used when calculating the district's total budget.

State Share: The state authorizes the amount of transportation aid disbursed by state funds, and any remainder is assumed by the district.

Extent of Participation: All 304 districts participate, either by operating transportation systems, contracting transportation with carriers, or making mileage payments to parents in lieu of operating a transportation system.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Funding in 1993-94: A restricted form of aid to capital outlay is included in General State Aid (GSA) as a weighted factor as described below. A separate funding scheme for state assistance to bonded indebtedness is described later.

Description: Separate aid for maintenance and operations is not available, as these may be paid from a district's general fund or from a special capital outlay fund that is allowed to accumulate. School facilities weighting is part of General State Aid (GSA) as noted earlier and below.

New Facilities Weighting. This weighting is assigned to the enrollment of districts to assist with costs associated with beginning operation of new facilities. For qualifying districts, such weighting of 0.25 per pupil is available only during the first two years—the year in which the facility is opened and the following year. This weighting is further restricted to those districts which have utilized the full amount of local option budget (LOB) authorized for the school year (see earlier discussion of LOB).

State Share: See new facilities weighting above. Maintenance and operations may be paid from the school district's general fund or its capital outlay fund. The general fund is equalized by payment of general state aid (GSA). The capital outlay fund may also receive GSA monies by scheduled transfers from the general fund.

Local Share: Local share is determined by the extent of local participation in GSA. See calculation of local share under earlier description of how general state aid is determined.

Local Special Taxing Authority. In addition to the foregoing provisions, a 1993 amendment permitted school districts to seek approval from the State Board of Tax Appeals (SBOTA) for authority to levy a property tax to pay certain costs associated with commencing operation of new school facilities. To qualify, the district must have begun operation of one or more new schools in the preceding or current year, or both; have adopted the maximum LOB of 25 percent of State Financial Aid (SFA); and have had an enrollment increase in each of the last three school years preceding the current year which averages seven percent or more. The funds from this levy, if approved by SBOTA, are for an amount equal to the cost of operating the new facility that is not financed from any other source previously discussed here. This separate levy authority may not exceed two years, and the proceeds are deposited to the district's supplemental general fund and budgeted in the LOB as an addition to the maximum amount otherwise permitted under LOB. These revenues are restricted to use for new facility operations.

Extent of Participation: All 304 districts may participate in maintenance and operations funding as described, and all districts may qualify for facilities weighting as described.

Debt Service

Funding in 1993-94: $7.4 million

Description: Beginning under SDFQPA, school districts are entitled to bond and interest state aid payments to help pay the costs of bond obligations approved by the district's voters. This aid, first authorized in 1992, is based on an equalization principle designed to provide aid inversely to district assessed valuation per pupil. One state aid matching rate applies to the duration of bond and interest payments on bonds issued before July 1, 1992. A different matching rate applies during the life of bonds issued on or after July 1, 1992. For districts at the median assessed valuation per pupil, the aid ratio is five percent for obligations incurred before July 1, 1992, and 25 percent for obligations incurred thereafter. This matching aid increases or decreases by one percentage point for every $1,000 change in assessed valuation above or below the median assessed valuation per pupil for the state.

State Share: See description above.

Local Share: The unfunded portion of the obligation is paid from the local property tax as an added millage above the uniform statewide mill rate. The local share is effectively limited by the district's debt ceiling under separate statute, although there is no limit to actual mills charged.

Extent of Participation: All districts are eligible, providing the requirements of law are met. Because this aid is a demand transfer on the state general fund, the amount needed to fund entitlement is the amount expended. In 1993-94, 130 of the 145 districts levying for bond and interest received state aid. Participation is growing rapidly, as in 1995 estimated aid is $14.5 million, approximately twice the amount required in 1994.

V. TEACHER RETIREMENT

Funding in 1993-94: $55.8 million (3.5% of total state school aid).

Description: The Kansas Public Employees Retirement System (KPERS) is a mandatory program for Kansas educators, as well as many other employees of the state. Employee deduction (4 percent) funds the first share, and the state contributes to KPERS on behalf of school employers. There is no local district share. The state's contribution is a percentage of payroll that is determined by actuarial evaluation.

State Share: See above.

Local Share: See above.

Extent of participation: All 304 school districts.

VI. SPECIAL EDUCATION

Funding in 1993-94: $149 million (9.2% of total state school aid).

Description: The law in Kansas identifies two categories of special operating funds. The first kind is *program weighted funds*. The second kind is *categorical funds*. Program weighted funds are transportation, vocational, and bilingual. Categorical funds are special education, food service, driver training, inservice education, parent education, and educational excellence grant program funds. Special education is therefore a strict categorical fund based on a plan that funds the number of FTE special teachers employed in a district or special education cooperative or interlocal agreement.

Catastrophic State Aid. School districts receive reimbursement for 75 percent of actual costs of special education services to an exceptional child in excess of $25,000, based upon applications submitted by districts to the State Board of Education. This aid is the first claim on the amounts legislatively appropriated each year for special education services aid.

Special Education Services Aid. Of the amount of special education aid remaining after the catastrophic state aid entitlements have been paid, school districts receive 80 percent of travel allowances for special education teachers, 80 percent of costs for transporting special education students to and from special education services, 80 percent of maintenance of an exceptional child away from home (subject to a $600 limit per child per year). After catastrophic and transportation costs are known, the remaining amount of appropriation is distributed by a formula based on a uniform amount per teaching unit (FTE teacher = 1.0, while approved paraprofessionals = 0.4). In most years (but not for FY 1995 upcoming), the appropriation has been based on a targeted percentage of a statewide calculation of the excess costs of providing special education services (a special provision in the FY 1995 appropriation legislation specified a reduction of districts' special education aid in an amount equal to any amount remaining as balance in the district's special education fund in the prior fiscal year that is in excess of 20 percent of the district's estimated expenditures in the current fiscal year).

State Share: See Special Education Services Aid above.

Local Share: Any remaining cost not covered by either catastrophic aid or special education services aid is the responsibility of the local district, usually met by transferring monies from the district's general fund to its special education fund. Districts also may choose different delivery systems for special education to curb costs. Two such systems are common. Larger districts generally choose to operate their own special education services. All other districts choose either a special education cooperative, or alternatively, a special education interlocal agreement. The differences between a cooperative and an interlocal are legal and managerial, with both designs resulting in collaboration and cost-sharing among a group of districts.

Extent of Participation: All 304 districts must participate and all receive aid.

VII. COMPENSATORY EDUCATION

Included as weighting in the SFA.

VIII. GIFTED AND TALENTED EDUCATION

Included in Special Education.

IX. BILINGUAL EDUCATION

Included as weighting in the SFA.

X. OTHER CATEGORICAL PROGRAMS

As noted under special education, Kansas utilizes categorical programs for the areas of food service, driver training, inservice education, parent education, and educational excellence grant program funds. Most of these funds are minor compared to the programs already discussed. Further, districts may be responsible for operating post-secondary vocational education programs, although these tuition programs are not included here since they do not fit K-12 education; additionally, a very small number of districts operate adult education programs, although not required by law and are not discussed due to lack of relevance to K-12 education.

Food Service

Funding in 1993-94: $2.35 million (less than 1.0% of total state school aid).

Description: Aid to local districts, in addition to federal subsidies.

State Share: The state's share is structured in the same manner as federal food aid, set at 5¢ per reimbursable meal and includes an underproration provision. In practice, the amount appropriated is based on minimum federal program state level matching requirements.

Local Share: The local district determines the price of meals as a part of local decisionmaking. In practice, the district calculates its actual cost per meal, subtracts federal and state aid, and decides how much of the difference should be shifted to the child, with the district paying the remainder.

Extent of Participation: All 304 districts.

State Safety Fund

Funding in 1993-94: $1.4 million (less than 1.0% of total state school aid).
Driver training $1.35 million
Motorcycle safety $49,000

Description: Driver training aid is provided in a uniform amount per pupil, who, in the preceding year, completed an approved driver training course conducted by the school district. Motorcycle safety is provided in a uniform amount per pupil, who, in the preceding year, completed an approved motorcycle safety course conducted by the school district.

State Share: A uniform amount as reimbursement based on legislative appropriation and distributed as described above.

Local Share: The difference between actual cost less state reimbursement.

Extent of Participation: All 304 school districts.

Inservice Education

Funding in 1993-94: $2.5 million (less than 1.0% of total state school aid).

Description: A program designed to provide staff development and school improvement. Local districts create inservice programs based on local needs and state requirements for reform found in SDFQPA.

State Share: Aid entitlements are determined on the basis of priorities established through a needs assessment program. A district's state funding may not exceed the lesser of .5 percent of the district's legally adopted budget of operating expenses *or* 50 percent of program costs, *or,* for innovative and experimental procedures, activities, and services in a school district inservice education plan, 50 percent of program costs. Awards are based on applications submitted by districts to the State Board of Education.

Local Share: Any costs beyond state reimbursement are the responsibility of the district.

Extent of Participation: All 304 districts.

Parent Education

Funding in 1993-94: $2.5 million (less than 1.0% of total state school aid).

Description: The program is designed to provide parents of children up through age two with parenting and child development information.

State Share: Kansas law states that the amount of a parent education program grant may not exceed program costs. However, funding provisions establish a 100 percent school district local funds matching requirement.

Local Share: Any unfunded costs after aid to districts are borne locally.

Extent of Participation: 198 districts participated, either alone or in cooperative programs.

Educational Excellence Grant

Funding in 1993-94: $1.5 million (less than 1.0% of total state school aid).

Description: Educational excellence is a competitive grant program. Application is made to the State Board of Education, with amounts determined by the SBOE according to established funding priorities.

State Share: An educational excellence grant may not exceed 50 percent of the cost of maintaining the plan. Since 1992, funds have been limited to only innovative programs.

Local Share: At least 50 percent of cost is borne by the local district and may be greater if the SBOE chooses to fund an application at less than the maximum allowable by law.

Extent of Participation: 21 grants were made, in which 137 districts participated.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None, except as transportation space by the most direct route is available, and as notification regarding certain federal funds applies to private schools.

XII. EARLY CHILDHOOD EDUCATION

Included in Special Education.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax forms the mainstay of local school revenues. Use of the property tax, however, has been markedly changed under SDFQPA by virtue of a uniform tax rate statewide and recapture of excess revenue generated under uniform tax rate in wealthy districts. The main operational features are reiterated here:

1. Each district is required under SDFQPA to levy 32 mills in 1992; 33 mills in 1993; and 35 mills in 1994 and thereafter for general fund purposes;

2. Each district receives a portion of motor vehicle property taxes;

3. Property tax revenues are combined with other revenues described earlier to create a deduction against State Financial Aid (SFA). Other revenues are industrial revenue bond and port authority bond revenues in lieu of tax payments; mineral production tax receipts; and rental/lease vehicle excise tax receipts.

Property is fractionally assessed according to a constitutionally required property classification scheme, with major property classes as follows: residential property (11.5 percent); commercial property (30 percent); motor vehicles (30 percent); agricultural land (30 percent of use value); and commercial equipment and machinery (20 percent). Numerous exemptions also apply. Reappraisal following a constitutional amendment in 1986 requiring both classification and reappraisal has brought assessed values into greater alignment with legal requirements. Properties are adjusted annually to current market values, with physical reinspection at least every four years. The Division of Property Valuation also conducts annual sales-to-assessment ratios for compliance purposes.

In 1993-94, general fund tax levies on real property for SGA and SGSA yielded $588.5 million.

In 1993-94, general fund motor vehicle tax yield for SGA and SGSA was $105.2 million.

In 1993-94, total general fund tax levies for SGA and SGSA was $693.7 million.

Income Tax

No income tax is available directly to school districts. Income tax at the state level funds a major portion of the state's revenues that feed state aid to schools.

Other Sources of Local Tax Revenue

No other major sources of local tax revenue exist. Minor sources, applying to only a few districts, are as follows:

1. Mineral production tax: $3.5 million.
2. Remaining proceeds of the former general fund tax levy prior to its repeal (serves as formula aid deduct).
3. Unexpended and unencumbered balances remaining in the general fund (serves as aid deduct).
4. Remaining proceeds of former transportation fund tax levy prior to repeal (serves as aid deduct).
5. Amounts credited to the general fund from industrial revenue bonds and port authority bonds in lieu of tax payments (serves as aid deduct).
6. Rental/lease vehicle excise tax receipts (serves as aid deduct and no reliable data exist as these monies are commingled with vehicle property taxes at the county level before distribution to schools).

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

General fund tax rates are statutorily uniform and may not be exceeded, as described earlier, except that qualifying districts may add on to local tax rates by:

1. supplemental general fund (LOB) as described previously;
2. bonded indebtedness as described previously.

There is no statutory limit *per se* to aggregated millages, except as effectually limited by the 25 percent cap on LOB and statutory bond debt ceilings calculated for each separate district.

Spending Limits

General fund spending is strictly limited (minimum and maximum) by the operation of SDFQPA wherein:

1. the formula base budget per pupil is $3,600;
2. the formula base budget may only be adjusted for weightings;
3. the formula base budget may only be increased locally by LOB limits.

No debt, other than bonding for facility purposes, is allowed under the state's cash basis law. No deficit spending is allowed, although a very limited mechanism for no-fund warrants is available as a deduct against future aid payments.

Voter Approval of Budgets and Bond Issues

Budgets are not subject to voter approval. The exception pertains to the Local Option Budget (LOB), where afive percent protest petition triggers a referendum.

Bond elections require referendum, with a majority required. Debt is limited to 14 percent of assessed valuation, which can be appealed for cause to the State Board of Tax Appeals (SBOTA) to exceed the statutory debt ceiling. There is no limit on how many times the same question can be presented to voters.

XV. EARMARKED STATE REVENUE

None.

Legislation enacted in 1993, effective in FY 1993, eliminated the earmarkings of the 1992 state revenue enhancements. However, simultaneously, sales and use tax received both rate increases and changes in exemptions in order to benefit school funding as follows:

1. Statewide sales and compensating use taxes increased from 4.25 percent to 4.9 percent on June 1, 1992.
2. Four sales tax exemptions were repealed and became taxable at 4.9 percent: interstate telephone and telegraph services; residential intrastate telephone and telegraph services; trade fixtures and equipment previously installed when sold by a person ceasing business; hotel and motel rooms rented for more than 28 consecutive days.
3. Two sales tax exemptions were repealed and became taxable at 2.5 percent: electricity, gas, and water consumed in production or manufacture of tangible personal property; original construction services, except for oil and gas wells, nonprofit community housing development, and certain services furnished in connection with written contracts entered into prior to May 15, 1992.

To assure that additional sales and use tax receipts attributable to SDFQPA were available, existing demand transfers from the State General Fund to the State Highway Fund (SHF), Local Ad Valorem Tax Reduction Fund (LAVTRF), and County-City Revenue Sharing Fund (CCRSF) were adjusted so that those funds would receive approximately the same amount of money as they would have received under prior law.

Individual income taxes were also increased to make greater funding available to schools. Old rates were 3.65 percent on taxable income up to $27,500 and 5.95 percent on taxable income in excess of $27,500. New rates increased to 4.4 percent on income up to $20,000 and 7.75 percent on income in excess of that amount.

Corporation income taxes were also adjusted. The base rate was lowered from 4.5 percent to 4.0 percent, the surtax increased from 2.25 percent to 3.35 percent, and the level at which the surtax becomes effective was increased from $25,000 of taxable income to $50,000.

XVI. SPECIAL TOPICS

See earlier discussions of innovative grant funding available on a competitive basis.

Separate treatment for the Leavenworth school district was eliminated, and this district was brought under the regular state aid formula. It had previously been treated separately since it has virtually no tax base outside the Fort Leavenworth military installation.

KENTUCKY

Tom Willis
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Kentucky Department of Education

I. GENERAL BACKGROUND

State

- In November 1985, 66 Kentucky school districts filed suit in Franklin Circuit Court challenging the adequacy and equity of funds provided for the education of Kentucky's children. It was not unusual that the court challenge addressed the fiscal issue. What became unusual in Kentucky was the ultimate decision rendered by the Kentucky Supreme Court in 1989.
- On June 8, 1989, the Kentucky Supreme Court, acting on an appeal of a ruling by the Franklin Circuit Court, ruled that the state's entire system of common schools was unconstitutional. The Court stated: "Lest there be any doubt, the result of our decision is that the entire sweep of common schools is unconstitutional." The Kentucky General Assembly was ordered to re-create and re-establish a new system of common schools in the Commonwealth.
- On April 11, 1990, the Kentucky General Assembly formally enacted House Bill 940, Kentucky Education Reform Act of 1990 (KERA). This historic piece of legislation, the most comprehensive education reform legislation in this country to date, lay the groundwork for establishing a world class system of common schools in the Commonwealth. Massive improvements in curriculum, governance, and finance will produce a system of common schools in Kentucky that will provide the opportunity for every child to reach their full education potential.

Key Funding Elements of the Kentucky Education Reform Act

- KERA established a simplified foundation program, termed Support Education Excellence Kentucky (SEEK), as a means of distributing funds to local school districts. SEEK guarantees school districts a minimum foundation level per-pupil with the minimum being adjusted by additional funds for pupil transportation costs, the number and type of exceptional children, the number of at-risk students (based on approved free lunch applications) and the number of students receiving home and/or hospital instruction.

- SEEK is a combination of state and local funds. A minimum local tax effort for schools of 30 cents per $100 of assessed property valuation is required. This is an equivalent tax rate and school districts can raise the required revenue through any combination of the property tax, motor vehicle tax, and four other optional taxes.

- Financial guarantees were made during the first two years of the anticipated five year implementation period for the new funding system. Each district was guaranteed to received at least eight percent more state funds in the 1990-91 budget year and at least five percent more in the following year. The increase in state funds was limited to no more than 25 percent in either year. For FB 1992-94, the General Assembly added a holdharmless provision to the SEEK formula, guaranteeing that no district would receive less funds per pupil than in the previous year.

- A two-tier process allows school districts to exceed the required minimum. Tier I is an optional component that allows school districts to generate additional revenue up to 15 percent of the adjusted base guarantee. This additional tax levy, which is levied by the local school board and is not subject to a recall by the voters, is equalized in those school districts with per pupil property assessments of less than 150 percent of the statewide average (for FB 1992-94, this level of equalization was set at $225,000). School districts may generate the entire 15 percent or any portion thereof and 175 of 176 school districts currently participate.

- Tier II allows a school district to generate additional revenues up to 30 percent of the adjusted base plus Tier I. These funds are not equalized by the state and any new levy in Tier II is subject to recall by the voters (districts were allowed to retain the tax rates in place in 1989-90; therefore, some districts were grandfathered into Tier II).

- To assist school districts with support for school construction and/or renovation, KERA established the Facilities Support Program of Kentucky (FSPK). This program works in conjunction with the School Facilities Construction Commission (SFCC) that has existed since 1986 and provides a portion of the debt service needed for new construction and/or major renovation. Districts that wish to participate in FSPK are required to levy an equivalent tax rate of five cents in addition to the required minimum levy of 30 cents. To ensure that school districts receive the same benefit from this levy, the FSPK equalizes the five cents at 150 percent of the statewide per-pupil property assessment — the same as Tier I. Districts may levy this additional five cents at any time; however, state equalization funds are not provided until the five cents is committed to debt service.

- The General Assembly establishes a minimum salary schedule for teachers through the biennial budget bill. The minimum statewide salary schedule was raised ten percent for the 1990-91 school year and five percent for 1991-92 but did not increase in 1992-93 or 1993-94. Local school districts are allowed to set salaries at whatever level desired so long as this minimum is met. Currently, there are no school districts with a salary schedule at the minimum level. KERA mandates that a new compensation plan for teachers be developed and presented to the General Assembly for consideration. To date, this has not been done.

- KERA mandated that all real property in the state be reassessed within four years and that the Revenue Cabinet takes necessary steps to improve collection of property taxes in all counties.

- The School Rewards Trust Fund was established as a repository of funds appropriated for school rewards. Beginning in the spring of 1995, successful schools will receive monetary rewards from this fund. Kentucky's new assessment program — formally known as the Kentucky Instructional Results Information System (KIRIS) — is a performance-based system and is the instrument used to measure each school's success. Funds have accumulated in this trust fund since 1990 and approximately $26 million will be distributed to successful schools in 1995 and will continue on a two-year cycle.

- The Kentucky Education Technology Trust Fund was established as a repository of funds appropriated for education technology. The Master Plan for Education Technology describes how technology is used to accelerate the progress of children and has a key objective, the establishment of a single system of education technology that integrates instruction and administration. The technology investment is expected to exceed $400 million in the first 6-8 years. The state appropriation to the trust fund totaled $48 million in FB 1990-92 and $15 million in FB 1992-94. In FB 1992-94, $60 million was made available to local school districts to reduce the unmet technology need. Local school districts matched this one-to-one.

- A number of new categorical grant programs were established. Although not in statute, the recommendation in 1990 was to allow these programs to operate as grant programs for a period of 4-5 years and then make a determination as to whether or not they should be included in the SEEK program as a weighted program add-on.

Local

- The state has 176 local school districts. Each is fiscally self-reliant, not from the state, but from one another.
- In order to participate in SEEK, local school districts are required by statute to levy a minimum equivalent tax rate of 30 cents per $100 of assessed property valuation. This equivalent tax rate may be achieved by a combination of tax levies on real property, motor vehicles, and four other optional areas.
- In order to receive state funds from the School Facilities Construction Commission for new construction and/or renovation, local districts must commit an additional five cent equivalent tax levy to debt service for new facilities or major renovation of existing facilities (this is the FSPK program).

Funding Summary, 1993-94

Total State School Aid (All programs)		$2,192 million
Grants in aid*	1,967 million	
Teacher Retirement Contributions	225 million	
FICA	0	
Total Local School Tax Revenue		$734 million
Total Combined State and Local School Revenue		$2,926 million
State Financed Property Tax Credits Attributable to School Taxes	0	

* Includes $60.8 million for the School Facilities Construction Commission, which is not a part of the Department of Education.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $1,591.4 million (72.6% of total state school aid).

This figure does not include funds allocated for Secondary Vocational Education, Vocational Transportation, or Teachers' Retirement. These programs are part of the SEEK allocation. However, the legislature chose to list them as separate line items within the SEEK appropriation.

Nature of Program: Minimum foundation program. This program provides operating and capital expenditure funding to local school districts.

Allocation Units: Pupils. Funding is based on the prior year number of students in adjusted average daily attendance (ADA). Districts having growth in the first two months of the current year receive additional funds to help compensate for the growth.

Local Fiscal Capacity: Equalized assessed property valuation plus tax revenues from motor vehicles and other permissive taxes. Permissive taxes comprise: utility taxes (including cable television), income tax surcharges, and an occupational license tax.

How Formula Operates: The SEEK program is a "tiered" system composed of three distinct, but closely related components.

Adjusted Base Guarantee. SEEK provides a guaranteed amount of revenue ($2,420 in 1993-94) for each pupil in the Commonwealth. This *base guarantee* is adjusted by a series of factors that affect the cost of providing services to students. These factors are pupil transportation, exceptional children, at-risk students, and students served in a home and/or hospital setting.

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Tier I. Tier I is the second component of SEEK. This is an optional component that allows local school districts to generate additional revenue up to 15 percent of the adjusted base guarantee. School districts whose per pupil property wealth is less than 150 percent of the statewide average per-pupil property wealth receive state equalization funds if they levy this additional tax. This tax is levied by the school board and is not subject to a recall by the voters.

Tier II. Tier II is the third component of SEEK and is also optional. Tier II allows local school districts to generate additional revenue up to 30 percent of the amount generated by the adjusted base guarantee and Tier I. These funds are not equalized by the state and the levy must be approved by the voters.

State Share: The state's share per district is the adjusted base guarantee minus the required local share.

Local Share: All local school districts must levy a minimum equivalent tax rate of 30 cents per $100 of property assessment to participate in the SEEK program. Revenue generated by this required local effort (RLE) is applied to the adjusted SEEK base (adjusted SEEK base minus RLE equals state aid).

Weighting Procedures: None by grade level. KERA established weights for programs for exceptional children and the Department of Education was required to review and develop new weights by October 1, 1991, and the Office of Education Accountability was required to review weights for other program areas. The Department of Education has, in two separate reviews, determined that weights developed as part of the original development of the SEEK program are appropriate. No other weights have been developed.

Adjustments for Special Factors: Adjustments are made to the baseline formula for pupil transportation, the number and types of exceptional children, the number of students at-risk (determined by the number of students approved for free lunch), and the number of students who are receiving educational services in a home or hospital setting.

Aid Distribution Schedule: Information not provided.

Districts Off Formula: None.

III. TRANSPORTATION

Pupil Transportation (Basic)

Funding in 1993-94: $125.6 million (5.8% of total state school aid).

Description: Local districts are reimbursed for the approved costs of transporting those pupils who live one mile or more from school, from home to school and home again.

State and Local Shares: The state pays the approved costs. Local districts pay any additional costs not covered by state aid. The local share for basic transportation amounted to $9.1 million for 1993-94

Extent of Participation: 173 school districts.

Pupil Transportation (Vocational)

Funding in 1993-94: $2.1 million (less than 1.0% of total state school aid).

Description: Local districts are reimbursed for the approved costs of transporting public school pupils who are enrolled in area vocational schools, from their home school to the vocational school and return to home school.

State and Local Shares: The state pays the approved costs. Local districts pay any additional costs not covered by state aid. The local share for vocational transportation amounted to $0.7 million for 1993-94.

Extent of Participation: 131 school districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Capital outlay for Kentucky school districts is generated in a multi-tiered system. There are three levels of financing for construction/renovation and other capital needs.

The first level is the capital outlay component, which is part of the base SEEK funding program. This provides $100 per student through the base for construction needs. When used as cash outlay, boards of education may make large equipment purchases or items such as one or more classroom additions, or they may dedicate cash to a major construction renovation project. In addition, boards of education may issue revenue bonds backed by the $100 per student generated in their district. Included in the SEEK appropriation is $57.3 million for capital outlay.

The second level is the levy for the Facilities Support Program of Kentucky (FSPK). School districts must levy at least five cents per $100 of property assessment in order to participate in the School Facilities Construction Commission (SFCC) program. If the funds from this five cent levy are committed to debt service, the SFPK provides equalized funding for school systems whose property wealth is less than 150 percent of the statewide average. Included in the SEEK appropriation is $13.5 million for this equalization program.

The third level is the SFCC, which provides funds to assist districts with debt service payments for new construction and/or renovation. Each district's facility needs are established through a facilities survey and SFCC funds are provided based on the percentage of the district's unmet need compared to the unmet need of the entire state. Districts wishing to participate in SFCC must obligate 80 percent of their capital outlay and 100 percent of the FSPK levy to establish eligibility.

These three levels of financing have resulted in an increase in construction/renovation from a yearly average of approximately $50 million to more than $300 million during the 1993-94 fiscal year.

Local Capital Project Financing

Information not provided.

V. TEACHER RETIREMENT

Funding in 1993-94: $224.9 million (10.3% of total state aid).

($193.0 million is included in the Department of Education budget as part of the SEEK program. $51.9 million is appropriated directly to the Teacher Retirement System.)

Description: The state contributes annually to the retirement system a permanent amount that is equal to the amount contributed by employees who are members of the Kentucky Teacher Retirement System (KTRS) plus an additional 3.25 percent of the total salaries of employees who are members of KTRS to discharge the system's unfunded obligations. Employees contribute 9.855 percent of total salary; the state contributes 13.105 percent of total salary.

State and Local Shares: The state pays the employer contributions. Local districts are responsible for the payroll deduction/collection of employee contributions to KTRS.

Extent of Participation: 176 local school districts, the Kentucky Department of Education, and various education cooperatives, consortia.

VI. SPECIAL EDUCATION

Funding in 1993-94: $175.2 million (8.0% of total state school aid).
These funds are included in the SEEK appropriation.

Description: The Department of Education provides statewide leadership to local school districts, to other appropriate public and non-public agencies, and to parents to insure that all disabled children and youth ages 3-21 are located, identified, evaluated, and have available to them a continuum of educational services.

The Department of Education is responsible for interpreting and enforcing federal statutes and regulations, developing state statutes and regulations, and monitoring all local programs to ensure compliance. Federal funding is available to the state and to local educational agencies through the preparation and submission of an Annual Program Plan under P. L. 101-476. This program provides for the protection of student and parental rights through due process and is administered by the Department of Education.

Administration of federal and state programs for exceptional children includes the planning, developing, and disseminating of quality educational programs appropriate to children and youth with disabilities. New and improved instructional methods, systems for delivering services, and technology are continually evolving in the field of special education. It is the role of the department to see that these initiatives are communicated and disseminated through policy development, inservice training programs, consultation, technical assistance, and curriculum and program development.

State Share: This program is funded through the SEEK program as an add-on to the basic guaranteed amount per child of $2,420. The weight is a function of basic guaranteed amount and is added to the guaranteed base.

The categories of handicapping conditions and value per child are as follows:

Severe Handicapping Conditions (Trainable Mentally Handicapped, Deaf-Blind, Hearing Impaired, etc.)	2.35
Moderate Handicapping Conditions (Educable Mentally Handicapped, Visually Impaired, and Multi-handicapped)	1.17
Least Handicapping Conditions (Speech/Language students in an unduplicated student count)	0.24

Local Share: Under limited circumstances, local school districts can be required to provide special services for students whose needs are not being sufficiently met by other means.

Extent of Participation: 176 school districts

VII. COMPENSATORY EDUCATION

Extended School Services

Funding in 1993-94: $34.1 million (less than 1.0% of total state aid).

Description: The Extended School Services (ESS) program replaced the Essential Skills Remediation program in 1991-92. The ESS provides services to students who need additional instruction beyond the scope of the regular classroom instructional period. Additional services are provided outside the regular school day, including before and after school sessions. The program instructors may provide direct instruction, tutoring, counseling, and study skills reinforcement. All local school districts receive ESS funds with part of the allocation based on average daily attendance and part based on the level of need as determined by the district average test scores, dropout rates, and the number of at-risk students. More than 90,000 students participate in ESS during the regular school term and more than 40,000 are served during the summer program.

State Share: The state determines the eligibility of districts based upon the test scores and observed performance of students. Funds may only be expended on salaries for teachers/instructional assistants. Teachers generate current operating expense funds.

Local Share: None required. Districts may choose to provide additional funds to support ESS.

Extent of Participation: 176 school districts.

Out of District Program

Funding in 1993-94: $3.7 million (less than 1.0% of total state school aid).

Description: This program reimburses local districts for additional services provided to school-age children who are committed to state institutions or day treatment centers located within their district, for the treatment of mental illness, emotional disturbance, mental retardation, or behavior disorders.

State and Local Shares: These students generate SEEK funds in the same manner as all other students. These funds are for costs exceeding amounts generated through the SEEK program due to a longer school year, smaller pupil/teacher ratios, and the intensive educational programs. While it varies considerably, all local school districts contribute local funds to this program.

Extent of Participation: 23 school districts.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $5.9 million (less than 1.0% of total state school aid).

Description: This program provides technical assistance, monitoring, and evaluation of both programs and teachers of academically gifted students through grants to local school districts. It provides exam reimbursement to students and technical assistance to districts that offer the Commonwealth Diploma to graduating seniors.

State and Local Shares: State funds for this program are provided to all school districts in amounts ranging from $13,000 to $67,200. These funds generally pay a portion of a teacher's salary and/or a gifted and talented program coordinator. All school districts contribute local funds to this program with the amount varying depending on the level of the program offered.

Extent of Participation: 176 school districts.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $16.0 million (less than 10% of total state school aid).

Funding for secondary vocational education is included in the SEEK appropriation. This $16 million is transferred to the Workforce Development Cabinet, which operates area vocational centers.

Description: Responsibility for secondary vocational education programs is divided between the Department of Education and the Workforce Development Cabinet. The Department of Education is responsible for the secondary vocational education programs operating in local high schools and in vocational schools operated by the local school district.

The Workforce Development Cabinet operates 54 area vocational centers that provide services for secondary vocational students. Students generally attend the area centers for one-half day although some programs may require less time. Transportation is provided from the local high school to and from the area center. $16 million from the SEEK appropriation is transferred to the Workforce Development Cabinet to offset the cost of providing for secondary students who attend the area vocational centers.

The Commonwealth of Kentucky provides, through the SEEK program, secondary vocational education program funds for each local school district.

The Carl D. Perkins Vocational and Applied Technology Act of 1990 is administered by the Department of Education. This act provides supplemental funding of $6.3 million for improving secondary vocational education programs which integrate academic occupational skills in order to prepare students to work in a technologically advanced society. All programs funded must be of a size, scope, and quality to be effective, must integrate academic and occupational skills, and must meet the needs of special populations.

The Workforce Development Cabinet is responsible for post-secondary, adult basic education, vocational-technical education, and vocational rehabilitation programs. During 1993-94, the Cabinet's budget was $160.0 million.

State Share: The Kentucky General Assembly provides funding for secondary vocational education through the SEEK program. These funds provide teacher salaries, supplies, materials, etc. The $16 million of SEEK funds are transferred to the Workforce Development Cabinet to offset the cost of secondary students attending the area vocational centers.

The Department of Education is responsible for the implementation of the Perkins Act throughout Kentucky. The Department develops and distributes an application form that local school districts then use in applying for funding under the Perkins Act. The Division of Secondary Vocational Education reviews all applications, approves and monitors all programs, and distributes grants to all qualifying school districts.

Districts participating in the Perkins Act grant program are responsible for the maintenance of existing programs. Funds received through the Perkins Act program, which are designated for disadvantaged and handicapped children, required a local district match of 25 percent in 1994-95.

Local Share: The Kentucky program has no match requirement although local districts may, at their discretion, fund secondary vocational education programs above the funding levels received/required.

Extent of Participation: 173 school districts.

Ungraded Primary School Program

Funding in 1993-94: None

Description: The Ungraded Primary School Program is designed for children 5-8 years of age. Children are allowed to progress at their own pace during this phase of their education so that they will not feel a sense of "failure" or otherwise be stigmatized because they are unable to "keep up." The curriculum is structured to develop children's knowledge and skills in all developmental areas — physical, social, emotional, and intellectual. In order to facilitate children's learning, teacher teams may conduct activities involving whole groups, small groups, or even an individual child. Each child is viewed as a unique person with an individual pattern and timing growth.

State Share: Funds to support this program are included in the SEEK program. Less than $300,000 is provided for state department staff support.

Local Share: There is no specified matching funds requirement for this program. Local districts may subsidize the program with local funds if they wish.

Extent of Participation: 176 school districts.

Textbook Programs

Funding in 1993-94: $18.4 million (less than 1.0% of total state school aid).

Description: The state textbook commission approves a textbook adoption list and school districts adopt their textbooks from this state-approved list.

State and Local Shares: The state provides a per-pupil textbook allotment for all students in grades P-8. This allotment is sufficient to provide "free" textbooks to all students in this grade range. Districts are allowed to purchase additional textbooks and supplemental materials as well as instructional software. The decision as to what to purchase is made at the local level. The state provides no funding for textbooks for students in grades 9-12.

Local school districts may expend funds to purchase additional textbooks and materials for students in grades P-8. School districts purchase all textbooks for students in grades 9-12. The district is given the option of charging a rental fee for these textbooks.

Extent of Participation: 176 school districts.

Employee Benefits

Funding in 1993-94:
Health & Life Insurance: $133.7 million (6.1% of total state school aid).

Description: The State Board for Elementary and Secondary Education adopts the necessary regulations to implement the state health insurance program and the state life insurance program for both certified and non-certified public school personnel who qualify for participation.

State and Local Shares: The state pays 100 percent of both basic programs that amounts to $95.2 million for the state health insurance program and $0.5 million for the state life insurance program. Local districts are responsible for payroll deductions for any dependent health insurance premiums for eligible employees who wish health insurance coverage for one or more members of their immediate family and are responsible for payroll deductions of premiums for any additional life insurance desired by eligible employees.

Extent of Participation: 176 districts and various educational cooperatives.

School Equity/Reform Initiatives

A. SEEK

See Section I — General Background: State.

B. Instruction

Teacher Testing and Internship

Funding in 1993-94: $3.5 million (less than 1.0% of total state school aid).

Description: This program requires a passing score on written tests prior to receiving state teacher certification. It provides for the validation of out-of-state tests for use in Kentucky and establishes passing scores. Additionally, the program provides for a beginning teacher assistance and assessment program, trains teacher evaluators, and establishes beginning teacher committees.

State and Local Shares: The state provides 40 percent funding for local public school resource teachers and 14 percent to private and parochial school teachers who are involved in this program. (During 1994-95, approximately 14 percent of all teacher interns were employed in private/parochial schools.) Local school districts are not required to spend additional monies on this program but they may do so if they wish. Participating private and parochial schools are required to pay the costs of substitute teachers.

Extent of Participation: 176 public school districts, all four dioceses, and approximately 20 accredited private schools.

Staff Development

Funding in 1993-94: $10.0 million (less than 1.0% of total state school aid).

Description: The State Board for Elementary and Secondary Education provides for a series of state-sponsored professional development programs for certified personnel throughout the Commonwealth. Such programs focus on the following during the 1990-1992 biennium: the Kentucky Education Reform Act of 1990 (KERA), school-based decision making, performance-based student assessment, non-graded primary programs, research based instructional practices, instructional uses of technology, effective awareness, and sensitivity training (teachers can motivate and nurture students of diverse cultures).

State and Local Shares: The state allocates $15 per pupil to local school districts. Local districts are not responsible for any of the costs of this program. Any in-service programming beyond the scope of this program, however, is the financial responsibility of the districts.

Extent of Participation: 176 school districts.

Family Resource/Youth Service Centers

Funding in 1993-94: $26.4 million (less than 1.2% of total state school aid).

Description: A provision of the Kentucky Education Reform Act requires that the Governor of Kentucky appoint a task force to formulate a five-year plan to implement a network of family centers across the Commonwealth. The centers are to be located in or near each elementary school in which 20 percent or more of the student body is eligible for free school meals. The plan has the following components: (a) full-time preschool child care for children 2-3 years of age; (b) after-school child care for children ages 4-12 including full-time child care during the summer and on other days when school is not in session; (c) families in training: an integrated approach consisting of home visits, group meetings, and the monitoring of child development designed to assist new and expectant parents; (d) Parent and Child Education (PACE) program; (e) support and training for child day care providers; and (f) health services, referral to health services or both.

The plan developed by the task force will also include a five-year plan to implement a network of youth services centers across the Commonwealth. The centers are to be located in or near each school, except elementary schools, which service youth over the age of 12 in which 20 percent or more of the student body is eligible for free school meals. The plan has the following components: (a) referrals to health and social services; (b) employment skills development; (c) summer and part-time job development; (d) drug and alcohol abuse counseling; (e) family crisis and mental health counseling.

A grant provides financial assistance to eligible school districts that establish family resource centers and youth services centers. The Cabinet for Human Resources establishes the criteria for the awarding of all grants for this program.

Extent of Participation: All qualifying districts.

Extended Time for Students

Funding in 1993-94: $34.1 million (1.6% of total state school aid).

Description: Local school districts are required to provide additional education for students who need it in order to meet the standards of achievement expected of all students. This extended educational period may be in terms of days, weeks, or years that extend beyond the mandated 185-day school term.

State and Local Shares: Funding for this program is to be allocated to local districts through grants administered by the Department of Education. Local districts are required to pay that portion of the program, if any, for which grant funds are not sufficient.

Extent of Participation: 176 school districts.

Regional Service Centers

Funding in 1993-94: $1.9 million (less than 1.0% of total state school aid).

Description: Beginning with the 1991-92 fiscal year, regional service centers are to be established. The primary mission of these centers is the professional development of local school district personnel.

State and Local Shares: The state will assume 100 percent of the costs of this program.

Extent of Participation: 176 school districts.

Education Accountability Office

Funding in 1993-94: $0.35 million (paid from the budget of the General Assembly).

Description: The Education Accountability Office is an independent arm of the Kentucky General Assembly. This Office is responsible for monitoring the education system and the implementation of the Kentucky Education Reform Act (KERA). Its more specific duties are: to conduct an on-going review of the state's system of education finance; to verify the accuracy of district and state assessment and review records; to investigate allegations of waste, mismanagement, and fraud at the state or district level. All reports emanating from this Office go to the Legislative Research Committee for review and appropriate follow-up.

State and Local Shares: The entire budget for the Education Accountability Office is paid through state funds.

Extent of Participation: Not applicable.

Successful School Rewards

Funding in 1993-94: $15.0 million (less than 1.0% of total state school aid).

Funding for this program has been escrowed since 1990-91 and will approach $50 million by the close of fiscal year 1994-95. The first rewards to local schools and school districts, expected to total $25-30 million, will be distributed in the spring of 1994-95.

Description: The State Board for Elementary and Secondary Education is to provide a system or formula that may be used to identify successful schools.

State and Local Shares: The state pays 100 percent of the escrowed amount. The cost, if any, to local districts for this program is yet to be determined by the State Board for Elementary and Secondary Education.

Extent of Participation: All qualifying districts and schools.

Technology

Funding in 1993-94: $10 million (less than 1.0% of total state school aid).
The funding was escrowed for 1990-91.

Description: The Council for Education Technology has developed a five-year Master Plan for Education Technology. This plan is to improve learning, curriculum, and professional development training. The plan also establishes a uniform and integrated set of standards for financial accounting and reporting to be used by all local school districts. Funds in excess of $100 million have been expended for education technology since 1991-92.

State and Local Shares: The state pays 100 percent of the cost of the district administrative system. The state and local school districts share, on an equal basis, funding for school and classroom applications.

Extent of Participation: 176 school districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

See Section X — Teacher Testing and Internship.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $37 million (1.7% of total state school aid).

Description: Local school districts are responsible for providing an appropriate one-half day pre-school program for 4-year-olds who are at risk of educational failure.

Such programs in local districts are not to duplicate existing kindergarten programs or to be funded in part by the supplanting of federal funds. Children are identified as being at risk if they meet the eligibility criteria of the federal school lunch program. Student participation is voluntary.

State Share: The Kentucky State Department of Education administers this grant program and distributes all funds based upon the program guidelines and regulations adopted by the State Board for Elementary and Secondary Education.

Local Share: Local school districts may provide services for which the state grant is insufficient. Additionally, if the state grant is not sufficient to pay for all required components of the local pre-kindergarten program, local funds would need to be expended. Districts that operate Head Start programs may, with state approval, establish cooperative programs that utilize both state and federal funds. Local school districts had the option of providing this program in 1990-91. However, all local school districts were required to implement such a program by the beginning of the 1991-92 academic year.

Extent of Participation: 176 school districts.

XIII. LOCAL SCHOOL REVENUE

Detailed information not provided. However, see Section I — General Background: State — Key Funding Elements of the Kentucky Education Reform Act and Section II — Basic Support Program: Local Share.

XIV. TAX AND SPENDING LIMITS

Detailed information not provided. However, see Section I — General Background: State — Key Funding Elements of the Kentucky Education Reform Act and Section II — Basic Support Program: Local Share.

XV. EARMARKED STATE REVENUE

None

XVI. SPECIAL TOPICS

Information not provided.

LOUISIANA

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I. GENERAL BACKGROUND

State

- In 1993-94, state sources of revenue were 54 percent, local sources were 34 percent, and federal sources were 12 percent.
- Over the past several years, the proportion of state and local revenues has fluctuated slightly (within three pecentage points) and is currently at 61 percent state and 39 percent local.
- The formula in use was first adopted and approved in 1993-94. The same formula is continuing in 1994-95 with changes proposed for 1995-96. The formula in use in 1993-94 was a continuation of the new formula adopted in 1992-93, which attempts to equalize state and local spending. The 1992-93 formula takes into consideration local wealth and local tax support factors to a much higher degree than past formulas.
- The new 1992-93 formula was adopted in response to universal agreement that change was necessary and also in response to two law suits that were filed in February 1992. The suits are not expected to come to trial until early 1996. With the initial implementation of this new formula in 1992-93, the state Department of Education was charged with creating an appropriate fiscal accountability system that would provide for audit and automation of student, staff, fiscal, program, personnel, facility, community, evaluation, and other relevant data. Data for each school system are now electronically collected and aggregated at the state level on each individual student, individual staff member, and system level finances.
- Refinements were incorporated and adopted in 1993-94 with several areas remaining "under development." The most important "under development" areas being considered are transportation and special education. These areas are currently using a "place holder" until recommendations can be approved by the state board and the legislature. The place holders incorporate prior year actual expenditures as defined in the basic support formula. Recommendations for improvement and refinement will be presented in the 1995 Regular Legislative Session.
- Louisiana's school finance system is unique in that the largest single local source of revenue is local sales taxes rather than local property taxes.
- The current formula uses a methodology based on the Representative Tax System (RTS) approach developed by the Advisory Commission on Intergovernmental Relations. This methodology has been adapted to calculate local school district fiscal capacity.

Local

- There are 64 parish school systems (parish is the same as county in other states) and two city school systems (Monroe and Bogalusa) for a total of 66 local school systems. Both parish and city school systems are independent and have the authority to tax and incur debt.
- School systems are governed by elected members of local school boards who appoint the local school superintendent.
- The single largest local source of revenue is the local sales tax. Sixty-five of the 66 local school districts levy a local sales tax.
- Prior to the new 1992-93 formula, a very low level of local support was factored into the state aid formula. The formula mandated a uniform required local effort of 5.5 mills of net assessed property across districts, which amounted to approximately $60 million of a total recognized cost of $1,770 million. Moreover, the old formula did not take local sales tax revenue into consideration.
- The current formula recognizes total cost at $2,651 million and targets local support at $876 million for 1993-94, and provides an incentive for local tax effort. Whereas the new formula still does not require a set amount of local support, several districts that have traditionally failed to pass local taxes for school support have been successful in passing local taxes since the adoption of the new formula.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,913 million
Grants in aid	1,913 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Revenue		$1,213 million
Property tax revenue	454 million	
Other local source tax revenue	588 million	
Local source non-tax revenue	171 million	
Total Combined State and Local School Revenue		$3,126 million
State-Financed Property Tax Credits Attributable to School Taxes	29.3 million (included in total state school aid)	

II. THE BASIC SUPPORT PROGRAM

Minimum Foundation Program Level 1
Per-Pupil State and Local Costs

Funding in 1993-94: The state and local cost included in the basic support formula for Level 1 was $2,651 million.

Nature of Program: Level 1 of the Minimum Foundation Program is a weighted student approach with the per-pupil amount determined by a procedure utilizing prior year state aggregated actual expenditures from the general fund and other special funds of local school systems. There are currently four weighted areas and two unweighted areas. The weighted areas are described under weighting procedures. The two unweighted areas are for special education and transportation. These two unweighted areas utilize a "place holder" of prior year actual expenditures adjusted by expected new growth with the adjustment reconciled in the next fiscal period.

Allocation Units: The allocation units for the per-pupil amount are: (1) October 1 membership as defined by the state board and the state department of education; (2) October 1 membership for students enrolled in grades K-3 weighted at .15; (3) October 1 membership of students eligible for free or reduced school lunch program weighted at .15; (4) Units of students requiring remediation as determined by state administered test weighted at .10; and (5) Units of students enrolled in secondary vocational education courses weighted at .05.

Local Fiscal Capacity: Local fiscal capacity is measured based on a combination of property tax and sales tax utilizing an adaptation of the Representative Tax System (RTS) approach. This approach multiplies the state average rates for sales and property taxes by each district's sales and property tax bases. These two fiscal capacity estimated revenue amounts are added together and then divided by the number of students in each individual district to create a fiscal capacity per-pupil amount. Each district's per-pupil amount is divided by the state per-pupil amount to create a fiscal capacity index.

How Formula Operates: The formula calculates the state and local cost of a minimum educational program based on the October 1 student membership counts, the weighted areas, and the unweighted areas. The mathematical steps next multiply each district's fiscal capacity index times the individual district's proportion of state weighted membership to produce a local proration factor. Each districts local proration factor is then multiplied by 33 percent of the aggregate state and local costs. Once the local share amount is determined, it is subtracted from the total state and local costs to determine the state share, which on average is 67 percent.

State Share: The state share of the total calculated state and local cost is 67 percent on average as calculated by the formula or a total of $1,753 million. Each district's share funded by the state varies based on each district's individual fiscal capacity. The formula in 1993-94, is being phased-in with limits on increases and hold-harmless provisions. This conversion funding provides the state share be funded at a level of 69 percent instead of 67 percent. The percentages funded by the state across districts ranged from a low of 52 percent to a high of 88 percent.

Local Share: The average local share is set at 33 percent. Each district's percentage is influenced by their own local fiscal capacity. Currently, local districts are not required to generate their local share. In 1993-94, the local share amounted to $876 million. The 1993-94 local proportion across school districts ranged from a low of 12 percent to a high of 48 percent.

Weighting Procedures: The October 1 student membership count is increased by adding the following: (1) the product of .15 times the students enrolled in grades K-3; (2) the product of .15 times the students eligible for the free and reduced price lunch program; (3) the product of .10 times the remediation units required by the Louisiana Education Assessment Program; and, (4) the product of .05 times the units of students enrolled in secondary vocational education courses. The addition of these weighted areas to the October 1 membership number creates a "weighted student" count. This weighted student count is multiplied times the per-pupil amount to determine the weighted cost of the basic support formula.

Minimum Foundation Program Level 2
Incentives for Local Effort

Funding in 1993-94: The amount of $62 million in local revenue, eligible for consideration under Level 2, generated an amount of $34 million additional state revenues for those districts participating.

Nature of program: Level 2 of the basic support formula is designed to encourage local school districts to levy additional sales and property taxes beyond the target of local support established in Level 1. Level 2 is designed to reward local districts for additional tax effort on the basis of 50 cents, adjusted by local fiscal capacity, for each additional dollar of local effort.

Allocation Units: The state share of funds is determined based on eligible local revenues that exceed the Level 1 target for local support.

Local Fiscal Capacity: The same RTS method used in Level 1 is incorporated in Level 2.

How Formula Operates: The formula uses a mathematical approach to determine the state percentage of support for Level 2 as follows:

1 – [(1–.50) x RTS]

Once the state share percentage is determined, it is multiplied by the eligible local sales and property tax revenue.

State Share: The state share on the average is 50 percent.

Local Share: The local share is determined by the effort the local district makes beyond the Level 1 basic support formula local target.

Minimum Foundation Program
Conversion Funding for Level 1 and 2

Adjustments for Special Factors: Any increases or hold-harmless amounts are calculated on a per-pupil basis. Increases are determined based on the formula state per-pupil amount compared to the prior year state funded amount. If this difference is positive, a district's state per-pupil amount is increased from the prior year by 25 percent of that difference. If the prior year to current year per-pupil amount difference is negative, the district gets the greater per-pupil amount of the past two prior years.

Aid Distribution Schedule: Even with a state average funding level of 69 percent instead of 67 percent, conversion aspects of the formula limit the state's overall funding level to 98.8 percent of the total full funding amount. The state funding variation across school districts at the 67 percent average share level ranges from a low of 80 percent to a high of 251 percent funded. Funding over 100 percent is due to state hold-harmless provisions, and any amount less than 100 percent is due to state phase-in provisions.

Districts are paid an estimate for the first eight months of the fiscal period beginning in July. In January of each year, the current year budget is calculated as per the formula. The last four monthly payments, March through June, are adjusted to ensure that each district receives the total for the twelve month period, July through June, as required by the formula. District cash payments are required to be paid by the 25th of each month.

Districts Off Formula: In 1993-94, all districts were off formula. There were 46 districts with a state unfunded amount due of $115 million (phase-in provisions) and 20 districts in a state over-funded situation in the amount of $93 million (hold-harmless provisions).

III. TRANSPORTATION

Funding in 1993-94: State and local amount included in the formula described above was $191 million.

Description: The transportation program is included in the basic support formula based on prior year actual expenditures. This measure is considered a place holder until weighted categories can be developed. Included in the state and local transportation costs of the basic support formula are both regular and special transportation expenditures, along with costs for purchases of equipment and new buses.

State Share: The state share is 67 percent on the average paid through the formula described in basic support formula above.

Local Share: The local share is 33 percent on the average and is calculated through the basic support formula.

Extent of Participation: All 66 districts participate in the transportation component of the basic support formula.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

No state aid is provided.

Local Capital Project Financing

Local expenditures for facility acquisition and construction totaled $133 million. All capital outlay is a 100 percent local responsibility. Each district determines its own capital outlay needs and makes appropriate funding arrangements. Each local program may be different. Of the total 66 districts, 65 had some type of expenditures for facility acquisition and construction in 1993-94.

Debt service is strictly a local option. Each district's arrangements may vary across the state. Local expenditures for debt service were $213 million. Of the total 66 districts, 62 had expenditures for debt service in 1993-94.

DEBT — School Board Authority
(Louisiana Revised Statute (LRS)39:554)

The governing authorities of school districts may incur debt and issue bonds for the following purposes only: (1) acquiring and or improving lands for building sites and playgrounds, including construction of necessary sidewalks and streets adjacent thereto; (2) purchasing, erecting, and/or improving school buildings, teachers' homes and other school related facilities, and acquiring the necessary equipment and furnishings. The title to all the lands, buildings, and improvements shall be public.

Limit of Indebtedness
(LRS 39:562(C)

Notwithstanding any contrary provision of this Section or of any other law, the governing authority of parishwide school districts and of special school districts, including the city school boards of the cities of Bogalusa and Monroe, which cities shall be treated as special school districts, may incur debt and issue bonds therefor for the purposes set out in LRS 39:554 that, including the existing bonded debt of the subdivision for such purposes, may exceed ten percent but shall not exceed 25 percent of the assessed valuation of the taxable property of such subdivision, including both (1) homestead exempt property, which shall be included on the assessment roll for the purposes of calculating debt limitation, and (2) nonexempt property, as ascertained by the last assessment for the parish or local purposes prior to delivery of the bonds representing such debt, regardless of the date of the election at which said bonds were approved.

Maximum Duration; Interest
(LRS 39:563)

No bonds issued by any subdivision shall run for a longer period than 40 years from the date thereof, or bear a greater rate of interest than the maximum authorized by the Louisiana legislature. Such bonds shall become due and payable in annual installments beginning not more than three years after the date of issuance.

Form of Bonds; Signing
(LRS 39:564)

The governing authority issuing the bonds, shall by resolution, fix the form and terms of the bonds, and the rate of interest, payable annually or semi-annually within the maximum rate prescribed hereby. The bonds shall be payable in the medium and at the place within or without the state as may be fixed by resolution.

Resolution Prescribing Terms; Maturity
(LRS 39:565)

The governing authority issuing the bonds, shall by resolution fix the times within the maximum period prescribed hereby, when the bonds shall become payable. The bonds shall be payable in such annual installments beginning in such number of years following the date thereof as may be determined by the governing authority.

Registration as to Principal Only
(LRS 39:566)

Bonds issued hereunder may be either registered or coupon bonds. Coupon bonds may be registered as to principal in the holder's name on the books of the financial officer of the subdivision, the registration being noted upon the bonds by the financial officer, after which no transfer shall be valid unless made on the financial officer's books by the registered holder, and similarly noted on the bonds. Bonds registered as to principal may be discharged from registration by being transferred to bearer, after which they shall be transferable by delivery, but may be again registered as to principal as before.

Sales Tax Authority to Issue Bonds; Election Necessary
(LRS 39:698.2)

The governing authority of any local governmental subdivision or any school board may, in the manner hereinafter provided, fund sales tax revenues into negotiable bonds provided that the question of or proposition to authorize the funding of sales tax revenues into bonds shall have been submitted to the electors of the local governmental subdivision or, in the case of a school board the electors in the area under the jurisdiction of the school board, at an election called, conducted, canvassed and promulgated by the governing authority of the local governmental subdivision or the school board, as the case may be, in accordance with the laws of Louisiana governing the conduct of elections to authorize the issuance of bonds, levying of taxes and assumption of debt by political subdivisions and a majority of those electors voting in such election shall have voted in favor of the question or proposition to fund the sales tax revenues into bonds.

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993-94: The state and local cost included in the basic support formula is approximately $263 million.

Description: The employer share of the Teachers' Retirement System is 16.2 percent with an employee rate of eight percent for a total of 22.2 percent. Approximately ten percent of this total is to provide for an unfunded accrued liability in the retirement system that the state allowed to grow for a number of years. Based on a constitutional amendment passed in 1987, this unfunded amount must be paid off by the year 2029.

State Share: The state share is 67 percent on the average as outlined in the basic support formula.

Local Share: The local share is 33 percent on the average as outlined in the basic support formula.

Extent of Participation: All 66 districts participate in the State's Teachers' Retirement System of Louisiana.

Social Security

Funding in 1993-94: The total amount included in the basic support formula is approximately $6 million.

Description: Social security is paid only on those part-time or substitute employees not covered by a retirement system. In addition to the teachers' retirement system, there is a school employees' retirement system and a parochial retirement system.

State Share: The state share is 67 percent on the average as computed by the basic support formula.

Local Share: The local share is 33 percent on the average as computed by the basic support formula.

Extent of Participation: All 66 local school systems participate in social security for selected employees.

VI. SPECIAL EDUCATION

Instruction for Handicapping Conditions and Gifted/Talented

Funding in 1993-94: Approximately $403 million was included in the basic support formula for state and local special education instructional costs.

Description: The special education program is included in the basic support formula based on prior year actual expenditures. This measure is considered a place holder until weighted categories can be developed. Included in the state and local special education costs of the basic support formula are instructional expenditures for all handicapping conditions and gifted and talented programs.

State Share: The state share of special education costs is 67 percent on the average as computed by the basic support formula.

Local Share: The local share of special education costs is 33 percent on the average as computed by the basic support formula.

Extent of Participation: All 66 districts participate in the special education component of the basic support formula.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: Included in the basic support formula is a weighted category for "remediation." This category adds approximately $18 million state and local costs to the basic support formula.

Description: This funding is provided to assist school districts in providing extra instructional time to students who fail parts of the state administered testing program. Students with below passing scores are provided remediation in the subject areas.

State Share: The state share is 67 percent of the cost on the average as calculated by the basic support formula.

Local Share: The local share is 33 percent of the cost on the average as calculated by the basic support formula.

Extent of Participation: All 66 local school districts participate in this component of the basic support formula.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: Funding for Gifted and Talented education is included in the Instructional costs for Special Education.

Description: Gifted and Talented funding is included in the costs for special education.

State Share: The state share is 67 percent on the average as per the parameters of the basic support formula.

Local Share: The local share is 33 percent on the average as per the parameters of the basic support formula.

Extent of Participation: All 66 local school districts have some type of gifted and talented program.

IX. BILINGUAL EDUCATION

Funding is included in the basic support formula and is not distinguishable.

X. OTHER CATEGORICAL PROGRAMS

Professional Improvement Program

Funding in 1993-94: State funds provided for this program was $43.3 million.

Description: The Professional Improvement Program (PIP) is a discontinued program that was first enacted to encourage professional development of teachers. Teachers who attained certain college credit hours were given supplements to their pay. The current funding level is decreasing by approximately $3-5 million each year as those teachers who participated in this program retire.

State Share: The total amount is the state share.

Local Share: There is no local share of this program.

Extent of Participation: All 66 school districts participate in this program.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Textbooks and Instructional Materials

Funding in 1993-94: State funding for non-public school students was $3.5 million.

Description: Students enrolled in state approved non-public schools receive an allocation of $27.02 per student for textbooks, library books, and materials of instruction.

State Share: This program is not equalized, therefore the total amount is the state share.

Local Share: There is no consideration of a local share.

Extent of Participation: There are approximately 125,000 students enrolled in approximately 300 state approved non-public schools located in 42 of Louisiana's 64 parishes.

Transportation

Funding in 1993-94: State funds allocated for this purpose were $5.9 million.

Description: These funds are allocated to local school districts transporting students attending state approved non-public schools.

State Share: This allocation does not consider local district wealth, therefore the total amount is the state share.

Local Share: There is no consideration of a local share.

Extent of Participation: These funds are allocated to assist approximately 32,000 students in 32 of Louisiana's 64 parishes.

Required Services

Funding in 1993-94: State funds allocated for this purpose were $5.3 million.

Description: The purpose of this program is to assist state approved non-public schools in complying with state required reports and activities.

State Share: This allocation does not consider local district wealth, therefore the total amount is the state share.

Local Share: There is no consideration of a local share.

Extent of Participation: This program assists approximately 125,000 students enrolled in approximately 300 state approved non-public schools located in 42 of Louisiana's 64 parishes.

Food Service

Funding in 1993-94: State funds allocated for this purpose were $5.3 million.

Description: This state program provides a state fund match and salary assistance to school lunch workers for state approved non-public schools

State Share: This program is 100 percent state share.

Local Share: There is no local share in this program.

Extent of Participation: There are 12 state approved non-public food service agencies or schools participating in this program.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: State funding for early childhood programs was made available from the proceeds of a special trust fund in the amount of $3.3 million.

Description: This program is a block grant that provides funds for implementing early childhood/parent education activities designed to improve the readiness of preschool 4-year-old children through a developmentally appropriate curriculum and through early intervention strategies with their families.

State Share: This is a 100 percent state-level special fund.

Local Share: There is no local share.

Extent of Participation: Participation is based upon the successful submission and approval of a block grant project with funds allocated to school districts according to student population.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Constitutional Tax. Local school boards are constitutionally given the authority to levy a five mill tax, except for Orleans, which is given a 13 mill authority. This tax does not require a vote of local taxpayers. In 1993-94, due to changes in property assessment practices during the late 1970s, the actual levy ranged from a low of 2.84 mills to a high of 12 mills, except for Orleans, which was 27.65 mills. The state average equivalent millage was eight mills. All residential property is assessed at ten percent of fair market value.

Specific Purpose Taxes. To provide additional support to public elementary and secondary schools, any parish, school district, or subschool district, or any municipality or city school board that supports a separate city system of public schools may levy an *ad valorem* tax for a specific purpose, when authorized by a majority of the electors voting in the parish, municipality, district, or subdistrict in a election held for that purpose. The amount, duration, and purpose of the tax shall be in accord with any limitation imposed by the legislature. The legislature has set a maximum millage of 70 mills. This limit does not apply to millages for debt service.

For the 1993-94 year, the state average equivalent millage was 29 mills for specific purpose taxes, including debt service. The state average equivalent total combined constitutional and specific purpose millage was 37 mills. The variation in millage rates across school districts ranged from a low of 8.77 to a high of 85.27 mills, including debt service. The total revenue amount generated from property tax was $435 million.

Income Tax

There is no local income tax in Louisiana.

Other Sources of Local Tax Revenue

The major source of local tax revenue comes from the local sales tax. All local governmental entities have a combined limit of three percent local sales tax unless the Legislature approves an exemption to allow a greater rate. Sixty-five of the 66 local school districts levy a local sales tax. In 1993-94, the state average local sales tax rate was 1.54 percent. The sales tax rates varied from zero in one district to a high of 2.5 percent in another district, while tax rates in most districts ranged from one percent to two percent. The total amount of revenue collected from local sales taxes was $588 million.

Tax Credits and Exemptions

There are two exemptions that apply toward assessed property values that impact local school system tax revenues. The first is the homestead exemption. All personal residences valued at $75,000 or less are exempt from school district levied property taxes. The second is the industrial tax exemption. These are exemptions granted at the state level to companies for expansion or new facilities, generally for a ten-year period. After the ten-year period, these properties are then placed on the tax roll of the local school district.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Tax limits are the aggregate of 70 mills placed on net taxable property for operations in each school district and the three percent total local governmental sales tax limit.

Spending Limits

The only limits on spending are the availability of revenues. Local school districts cannot end the fiscal year in a deficit posture.

Voter Approval of Budgets and Bond Issues

Voter do not approve local school district budgets. Local school districts, however, must comply with the state passed Local Budget Act. Voters must approve tax rate increases and bond issues.

XV. EARMARKED STATE REVENUE

The state has an earmarked support fund whose revenue comes from a trust fund established by the Constitution. The total revenue available for enhancements is approximately $32 million each year. These funds are governed by the state board of elementary and secondary education and are awarded as block grants and competitive grants.

XVI. SPECIAL TOPICS

None.

MAINE

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I. GENERAL BACKGROUND

State

- In 1993-94, the state share of state and local revenues provided for education was 52 percent. During the three prior years, beginning in 1990-91, the state share percentages were 55 percent, 53 percent, and 55 percent. These percentage calculations are based on data provided to the National Education Association for its *Estimates of School Statistics* publication and include all of the following revenues:
  1. state and local revenues that are determined in accordance with Maine's school funding formula;
  2. all optional property tax levies raised by LEAs;
  3. other grants provided by the State;
  4. the State's 100 percent contribution of all retirement costs of currently employed and non-federally funded LEA staff; and
  5. costs of operating the Maine Department of Education.
- All state funds for education are appropriated from the General Fund. The largest revenue sources for the General Fund are the state income tax and the state sales tax. Most of these education funds are distributed to promote pupil and taxpayer equity, and corresponding local property tax revenues are required. There are two significant exceptions to these equalizing purposes: (1) the state pays for 100 percent of the employee retirement costs for every local school unit (except for federally funded teachers), and (2) local school units may raise additional local property tax revenues without state participation and subject only to approval of the unit's local legislative body.
- The current school funding statute was first implemented in the 1985-86 fiscal year. The general nature of the funding formula has not changed since 1978-79, except that several subsidy reduction methods have been implemented as a result of the economic downturn initially experienced during 1990-91. One significant action was implemented in 1990-91, when disbursement of the June subsidy payments was postponed until July: the first month of the next fiscal year. The purpose of this delay was to reduce the state's 1990-91 obligations, but the resulting offset is still in effect: the first monthly subsidy payment disbursed during a fiscal year is based on school funding formula calculations of the prior fiscal year; the remaining eleven monthly payments are based on school funding formula calculations in effect during the current fiscal year. Second, several changes in the methods for calculating subsidy amounts were implemented, all for the purpose of reducing the state obligation. The method used since 1993-94 reduces both the state and local share amounts — with some exceptions — for each LEA by a fixed percentage, so that the state's total statewide obligation is equal to the amount appropriated for that purpose. The LEA must determine if it wishes to replace these lost revenues with optional — and unequalized — LEA property tax levies and, if so, how much it wishes to replace. Finally, the total statewide recommended funding level (which is prepared by the Department of Education and serves as an initial funding plan for the following fiscal year) is now limited to the amount already appropriated for this purpose or — if no amount has yet been appropriated — to a five percent increase over the funding level implemented for the current fiscal year.

- A group of approximately 83 low property value LEAs filed suit in the State Superior Court in Kennebec County. The case was tried in February 1994. The plaintiffs argued that the State "violated their fundamental constitutional right to an education by treating the plaintiff students, taxpayers-parents and school units differently than identically situated students, parents and school units in municipalities with high property tax valuations." In addition, the plaintiffs proposed a different method of implementing subsidy reductions from the "Commissioner's Recommended Funding Level" that they argued would have created different — and acceptable — consequences for the plaintiffs. In the ruling issued on May 24, 1994, the judge noted that the Court reviewed the challenged legislation "to determine whether there is a rational basis for the classification that furthers a legitimate governmental aim," finally determining that "the Plaintiffs have not produced clear and irrefutable evidence that the challenged legislative action is arbitrary and irrationally discriminatory." The plaintiffs have appealed to the State Supreme Court. A hearing by the Supreme Court is expected some time in 1994-95.

Local

- K-12 education is provided by 284 school administrative units. (Note: In Maine, the term "school administrative unit" is, in general, equivalent to the term "local education agency" or LEA.) Of these, 211 are organized as a part of the government of a single municipality. These single municipality school administrative units are fiscally dependent on the government of that municipality, but the school administrative unit is generally independent of the municipality government for all other policy matters. The remaining 73 school administrative units are organized to provide educational services to more than one municipality. These remaining school administrative units (known in Maine as "districts") are independent of the governments of the municipalities being served, both fiscally and for other policy matters.
- Some school administrative units do not operate schools, or they operate schools for some but not all of grades K-12. Most pupils who reside in such school administrative units are enrolled in a nearby school administrative unit that is operating public schools, or a private school that has been approved for tuition purposes. Tuition costs for these pupils are provided by the school administrative unit where the pupils reside. An alternative method is to be a member of a Community School District that is a combination of two or more municipalities and/or districts formed to educate any or all grades. Students attend the school operated by the Community School District, which assesses the resident school administrative unit for the costs of this education.
- Property tax is the only tax revenue source for school administrative units. In addition to state subsidies and other grants, and federal funds, some school administrative units also derive revenues from other sources, including tuition charges and fees for transportation. However, these revenues are ultimately derived from property tax levies of other school administrative units.

Funding Summary, 1993-94

Total State School Aid (All Programs)[1]		$621 million
Grants in aid	520 million	
Teacher retirement contributions	101 million	
FICA	0	
Total Local School Revenue		$577 million
Property tax revenue	577 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$1,198 million
State Financed Property Tax Credits Attributable to School Taxes	0	

[1] Not included in this fiscal summary are (a) block grant programs that distributed $0.4 million to municipality governments (rather than to school administrative units) for the purpose of providing property tax relief from education mandate costs, and (b) lesser amounts for special purposes such as for innovative grants.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $348.2 million (56.1% of total state school aid).

Nature of Program: Modified foundation plan known in Maine as "operating cost" subsidies.

Allocation Units: Pupils. Pupil counts are based on the number of pupils who reside in the school administrative unit and who are being educated at the expense of this school administrative unit. Two snapshot pupil counts are used: as of April 1st and October 1st of the most recent calendar year prior to the year of funding. The average of these two snapshot counts are used for funding purposes. Pupils are counted as follows: (a) all regular Pre-K-12th grade and post-graduate pupils, excluding special education pupils who receive special education services for more that 50 percent of the time, (b) plus all alternate education pupils except as noted below, (c) plus a calculated amount for certain alternate education pupils seeking their high school diploma by taking Adult Education courses — 0.1 pupil is counted for each completed course, and (d) less the number of pupils with an excessive number of absences. Three types of counts are taken: one count representing all pupils, a second count for elementary (pre-K-8) pupils only, and a third count for secondary (9-12 and postgraduate) pupils only.

Local Fiscal Capacity: The fiscal capacity of each school administrative unit is the lesser of (a) the *average* of the equalized assessed value of all real and personal property valuation in the school unit during the two most recent years prior to the year of funding, and (b) the equalized assessed value of all real and personal property valuation in the school unit during the most recent year prior to the year of funding. (Note: beginning in 1995-96, only the amount described in (a) will be used.)

How Formula Operates: The calculation of the combined state and local revenues to be made available (known in Maine as the "allocation for operating costs"):

1. Several statewide funding parameters are calculated.
    - a. Three per-pupil rates (referred to in Maine as "Foundation Per-pupil Operating Rates) are calculated: a K-12 rate, a K-8 rate, and a 9-12 rate. Each of these rates is calculated by dividing (a) the statewide sum of all subsidizable operating costs, after being increased by a percentage based on recent increases in the consumer price index (CPI), by (b) the average of the appropriate statewide pupil count, as described in the "Allocation Units" section above. The term "subsidizable operating costs" includes all LEA expenditures during the "base year" (that is, two fiscal years prior to the year of funding), except for (a) costs that are subsidized in different ways, and (b) other costs explicitly described by statute as non-subsidizable costs.

    These rates may be reduced, as described in Step #6 below, if necessary to reduce the state's obligation to the amount appropriated for this purpose.

    - b. An Operating Costs Mill Rate. This mill rate is determined iteratively, for the purposes described in Step #6 below.
2. A pure foundation funding formula model is used as a starting point, to calculate a local share percentage for each school administrative unit. Each school unit's local share percentage is calculated as:

$$\text{minimum}\left[\frac{\text{School Unit's Local Share Amount}}{\text{Total Allocation Amount}}, 1\right] \text{x}100\%,$$

where the School Unit's Local Share Amount is calculated as in the foundation funding model: School Unit's Local Share Amount =

(Operating Costs Mill Rate) x (School Unit's Fiscal Capacity)

In the above calculation, the Operating Costs Mill Rate is calculated as described in Steps #1b and in Step #6. The school unit's *Fiscal Capacity* is calculated as described in an earlier section, "Local Fiscal Capacity."

The Total Allocation Amount is also calculated as in the foundation funding model: School Unit's Total Allocation Amount =

(# of K-12 Pupils in the School Unit) x (K-12 Foundation Per-Pupil Operating Rate)

In the above calculation, the number of K-12 pupils is calculated as described in an earlier section, "Allocation Units." The K-12 Foundation Per-pupil Operating Rate is calculated as described in Steps #1a and in Step #6.

3. An Allocation for Operating Costs is calculated for each school administrative unit as the sum of two products:

   Number of K-8 pupils times the K-8 Foundation Per-pupil Operating Rate, and
   Number of 9-12 pupils times the 9-12 Foundation Per-pupil Operating Rate.

   In the above calculation, the two pupil counts are calculated as described in an earlier section, "Allocation Units." The two per-pupil operating rates are calculated as described in Steps #1a and in Step #6.

4. The School Administrative Unit's Local Share Amount for Operating Costs is calculated by multiplying the School Administrative Unit's Total Allocation Amount (Step #3) by the school unit's Local Share Percentage (Step #2) The school unit's subsidy (state share of the Operating Costs Total Allocation) is calculated as the school unit's Total Allocation (Step #3) less the local share (as calculated earlier in this paragraph).

5. Three statewide summary statistics are determined:
   a. Total state subsidies for operating costs, expressed as a percentage of the statewide sum of the Total Allocation amounts for operating Costs,
   b. Total state subsidies (for operating costs and for all other subsidies described in this chapter), expressed as:
      (1) a total amount, and
      (2) a percentage of the statewide sum of the total state subsidies and of the required local property tax levies.

6. Based on the calculations in Step #5, the three Foundation Per-pupil Operating Rates and/or the Operating Costs Mill Rate may be changed, in accordance with the following criteria:
   a. If the percentage in 5a is less than the corresponding percentage during 1988-89, or if the percentage in 5b(2) is less than the corresponding percentage of the prior year, then the value of the Operating Costs Mill Rate (from Step #1b) is increased.
   b. If the amount in 5b(1) is greater than the amount appropriated for this purpose, then the Foundation Per-pupil Operating Rates (from Step #1a) are reduced by a percentage. In 1993-93, the original calculations for the Foundation Per-pupil Operating Rates were $3,343 (K-8), $4,756 (9-12), and $3,734 (K-12). To limit the state's obligation to the amount appropriated, these three rates were reduced by 18.82 percent.

   If either change (in Step #6a or in Step #6b) is made, then Steps #2 through #6 are repeated.

State Share: For each school unit, the amount of state subsidies is the sum of:

1. the School Administrative Unit subsidy, calculated in Step #4 of the "How Formula Operates" section, and

2. for eligible school units, additional "off formula" subsidies that are described later in Section II.

Local Share: For each school unit, the required local property tax contribution is described in Step #4 of the "How Formula Operates" section.

Weighting Procedures Maine does not explicitly employ a weighted pupil counting system. However, as noted in Step #3 in "How Formula Operates", the effect of Maine's funding is as if separate weights were used for elementary (K-8) pupils and for secondary (9-12) pupils, since separate counts of elementary and secondary pupils and separate per-pupil cost for pupils in these two grade spans are used.

C

Adjustments for Special Factors: An additional subsidy amount is provided to local school units that are geographically isolated.

Aid Distribution Schedule: The Debt Service subsidy payment schedule is keyed to the due dates for principal and interest payments at the Maine Municipal Bond Bank or commercial bank. State funds for State Wards and State Agency Clients (discussed in Section VI) are disbursed monthly, following receipt of bills for the cost of special educational services from the school units or private school that provide these services. Out-of-district special education funds are distributed once annually, in the spring, following receipt of bills for education/room/board charges. All other subsidies described in the chapter are distributed in twelve monthly payments of equal amounts.

Districts Off Formula: Some school units receive "off the formula" subsidies of one or both of the following types:

1. Thirty-nine school units receive "minimum subsidies" totaling $888,396, or about 0.1 percent of the total state funds for education. The amount of each school unit's minimum subsidies is that amount that is required to bring the total of all educational subsidies up to a level calculated by multiplying the school unit's pupils times five percent of the state's "K-12 per-pupil foundation rate" (described above). In general, only the wealthiest school administrative units are eligible for minimum subsidies.

2. During 1993-94, a special one-year provision was made to create a degree of stability to subsidy funds. One hundred and eighty-six (186) school units, which would have received less subsidies (excluding subsidies for debt service and for purchase of school buses) in 1993-94 than during the prior year where held harmless to 50 percent of that loss. The statewide total amount of this restoration was $11.9 million. The cost of this hold harmless provision was paid in part by limiting the increase in subsidies (excluding subsidies for debt service and for purchase of school buses) to 50 percent of what the increase would otherwise have been. Ninety-seven (97) school units had subsidies reduced by a statewide total amount of $7.1 million to implement this provision.

III. TRANSPORTATION

Funding in 1993-94: $98 million (15.8% of total state school aid).

Description: Subsidies are not provided for transportation costs as a distinct category. Instead, for each school unit an allocation amount is computed for each of the following categories (known in Maine as "programs"):

- transportation,
- special education,
- vocational education, and
- early childhood.

A state share portion of the sum of these program allocations is provided as subsidy to the school unit. In Maine, this subsidy is known as a "program cost" subsidy. In 1993-94, the total allocation for these four programs was about $158.2 million (after an 18.82 percent subsidy reduction plan was implemented). About $98.0 million, or 60 percent, of this total allocation was provided by the State as program cost subsidies, and the remaining $60.2 million was provided by local school units with required local property tax revenues. These program cost subsidies represent about 16 percent of all state funds provided for education.

For each school unit, the part of the total allocation for program costs that is attributable to transportation is calculated as the sum of:

1. the actual transportation operating costs for that unit during the "base year" (which is two years prior to the year of funding; the base year for 1993-94 funding is 1991-92); increased by a percentage which is the average of the two most recent percentages of annual statewide increase in the consumer price index (CPI); and

2. the total cost of all bus purchases made by the school unit during the year prior to the year of funding and that were approved for purchase by the Commissioner of Education. The statutory limit to the statewide total of these approved bus purchase costs is $4.5 million per year.

State Share: There is no state share amount provided for transportation as a distinct program. Instead, for each school unit, a state share portion of the sum of the school unit's allocations for all programs (transportation, special education, vocational education, and early childhood) is calculated as this sum of the program allocations, less the local share portion that is described in the next sub-section.

Local Share: There is no local share of transportation costs as a distinct program. Instead, for each school unit, a local share portion of the sum of the school unit's allocations for all four programs (transportation, special education, vocational education, and early childhood) is calculated as the lesser of:

1. the product of (a) the sum of the school unit's allocations for all four programs, and (b) the school unit's local share percentage (which is calculated as described in Section II, in Step #2 of the sub-section entitled "How Formula Operates"); and

2. a maximum local share amount for the school unit (known in Maine as the school unit's "program costs circuit breaker amount"), which is calculated by multiplying the equalized assessed value of taxable property in the school unit by a statewide mill rate (known in Maine as the "Program Costs" mill rate). This "Program Costs" mill rate is calculated so that at least 60 percent of the statewide total of all of the school unit program allocations is provided by the state as program cost subsidies.

Extent of Participation: All school units who expended money for any of the "programs" participate in this "program costs" subsidy.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay and Debt Service

Funding in 1993-94: $47.9 million (7.7% of total state school aid).

Subsidies are not provided for capital outlay and debt service as a distinct category. Instead, for each school unit an allocation amount is computed for each of the following categories:

- principal and interest costs for state-approved school construction projects,
- approved leases, and
- insured value factor costs.

The sum of these amounts is referred to as the "Debt Service Allocation." A state share portion of this Debt Service Allocation is provided as subsidy to each school unit. In Maine, this subsidy is known as a "debt service" subsidy. In 1993-94, the total allocation for these three categories was about $68.6 million. About $47.9 million, or 70 percent, of this total allocation was provided by the State as debt service subsidies, and the remaining $20.7 million was provided by local school units with required local property tax revenues. These debt service subsidies represent about 10 percent of all state funds provided for education.

Description: For each school unit, the allocation for debt service costs is calculated as the sum of the following three amounts:

1. the actual principal and interest payments for state-approved school construction projects that will become payable during the year of funding by the school unit. In 1993-94, the statutory limit to the statewide total of these principal and interest amounts is $67 million;

2. the actual cost of all state-approved leases by the school unit during the year prior to the year of funding; and

3. the actual "Base Year" costs of all "insured value factor" additions to tuition payments to private schools. The "insured value factor" addition to a tuition payment is intended to provide a private school with revenues for school construction projects.

This total allocation does not include costs for capital outlay or for debt service payments for school construction projects that are not approved by the state. Neither of these costs are subsidizable costs.

State Share: For each school unit, a state share portion of the sum of the school unit's debt service allocations is calculated as this allocation, less the local share portion that is described below.

Local Share: For each school unit, a local share portion of the school unit's debt service allocation is calculated as the lesser of:

1. the product of (a) the sum of the school unit's debt service allocation, and (b) the school unit's local share percentage (that is calculated as described in Section II, in the sub-section entitled "How Formula Operates"); and
2. a maximum local share amount for the school unit (known as the school unit's "debt service circuit breaker amount"), which is calculated by multiplying the equalized assessed value of taxable property in the school unit by a statewide mill rate (known as the "Debt Service" mill rate). The "Debt Service" mill rate is calculated so that at least 55 percent of the statewide total of all of the school unit Debt Service allocations is provided by the state as Debt Service subsidies.

Extent of Participation: All school units that expended money for any of the three debt service categories participate in this "Debt Service" subsidy.

Local Capital Project Financing

A quasi-state agency called the Maine Municipal Bond Bank has been established to market large bond issues for the financing of numerous school construction projects and other municipal projects. Over 90 percent of bond issues for school construction are handled through the Maine Municipal Bond Bank. The remaining issues are marketed through commercial banks. Voter approval is required before bonds may be sold.

The State Board of Education must approve the amount of state subsidizable costs of any school construction projects. Often a certain portion of the project costs is not approved for subsidizing and must be financed entirely with a local property tax levy.

V. TEACHER RETIREMENT

Funding in 1993-94: $100.9 million (16.2% of total state school aid).

Description: In 1993-94, $100.9 million was provided by the state for 100 percent of the local school unit's employer share of retirement costs for teachers and other professional educators (except for federally funded staff). Individual contributions to the retirement system are approximately 23 percent of the employer contributions. State responsibilities for teacher retirement costs is specified in Title 5, MRSA, Section 17154, Sub-section 6(A)).

State Share: 100 percent of the employer costs is provided by the state.

Extent of Participation: All school unit.

VI. SPECIAL EDUCATION

Special Education Local and Tuition and Board

Funding in 1993-94: Subsidies for special education are provided as part of Maine's "program costs" subsidy. See the sub-section "Funding in 1993-94" in Section III (Transportation) for more information regarding program cost subsidies in Maine.

Description: For each school unit, the part of the total allocation for all program costs that are attributable to special education is calculated as the actual approved costs for special education staff salaries and benefits, contracts, and tuition and board charges to that school unit during the "base year" (which is two years prior to the year of funding; the base year for 1993-94 funding is 1991-92); increased by a percentage which is the average of the two most recent percentages of annual statewide increase in the consumer price index (CPI).

State Share: See the sub-section "State Share" in Section III (Transportation) for a discussion of the state share calculations for all program costs, including for special education.

Local Share: See the sub-section "Local Share" in Section III (Transportation) for a discussion of the local share calculations for all program costs, including for special education.

Extent of Participation: All school units who expended money for any of the "programs" participate in this "program costs" subsidy.

Other Special Programs:
State Wards and State Agency Clients

Funding in 1993-94: $8.6 million (1.4% of total state school aid).

Description: State Wards and State Agency Clients are special education pupils whose educational placement is determined by the state. This program provides direct state special education financial assistance for wards of the state and for students who are placed as a result of some state agency involvement.

State Share: The state provides 100 percent of the educational costs for these pupils, including salary and benefit costs, contractual costs, and transportation costs.

Extent of Participation: Any public or private school who provides educational services for these pupils participates in this program.

Other Special Education Programs:
Out-of-District Placement Funds

Funding in 1993-94: $1.7 million (less than 1.0% of total state school aid).

Description: The out-of-district program provides assistance to a school unit that tuitions a special education pupil to another public or private school and for which the tuition and board costs exceeds three times the statewide secondary per-pupil cost that is used in the Basic Support Program described in Section II. For any school unit receiving these funds, their subsidizable special education costs are reduced by the amount of funds received.

State Share: The state provides 100 percent of these costs. However, if the statewide total of the eligible amounts exceeds the amount actually appropriated by the state, the available revenues are prorated among the receiving school units. In 1993-94, approximately $0.20 was provided for each eligible $1.00 in placement costs.

Extent of Participation: All school units may apply for out-of-district funds.

VII. COMPENSATORY EDUCATION

No state funds are provided for compensatory education.

VIII. GIFTED AND TALENTED EDUCATION

Gifted and Talented Programs are subsidized as a special education, as described in Section VI.

IX. BILINGUAL EDUCATION

Bilingual programs are subsidized as part of the Basic Support Program, as described in Section II.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: Subsidies for vocational education are provided as part of Maine's "program costs" subsidy. See the sub-section "Funding in 1993-94" in Section III (Transportation) for more information regarding program cost subsidies in Maine.

Description: For each school unit, the part of the total allocation for program costs that is attributable to vocational education is calculated as the actual vocational education costs for that unit during the "base year" (which is two years prior to the year of funding; the base year for 1993-94 funding is 1991-92); increased by a percentage that is the average of the two most recent percentages of annual statewide increase in the consumer price index (CPI).

State Share: Information regarding the state share for vocational education (and all other "program" costs) is described in Section III (Transportation).

Local Share: Information regarding the local share for vocational education (and all other "program" costs) is described in Section III (Transportation).

Extent of Participation: All school units who expended money for any of the "programs" participate in this "program costs."

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-94: $0.2 million (less than 1.0% of total state school aid).

Description: Maine does not allow the direct subsidization of private schools. However, state law allows a municipality to raise money to help pay for certain private school costs and receive a 50 percent reimbursement (or a prorated portion thereof) two years later. In addition, public schools that pay tuition to private schools receive a subsidy for these costs at their respective rates of state aid based on provisions of our school finance act.

State Share: The state share is limited to the amount appropriated for this purpose.

Local Share: The local share is 50 percent of the reimbursable costs, plus whatever additional amount is not provided by the state because of prorating.

Extent of Participation: All municipalities are eligible.

XII. EARLY CHILDHOOD EDUCATION

Funds for pre-kindergarten education (known in Maine as the "4-Year-Old Program") are provided as part of Maine's operating cost subsidy, already described in Section II.

Early Childhood Education

Funding in 1993-94: Subsidies for early childhood education are provided as part of Maine's "program costs" subsidy. See the sub-section "Funding in 1993-94" in Section III (Transportation) for more information regarding program cost subsidies in Maine.

Description: For each school unit, the part of the total allocation for program costs that is attributable to early childhood education is calculated as the actual early childhood education costs for that unit during the "base year" (which is two years prior to the year of funding; the base year for 1993-94 funding is 1991-92); increased by a percentage that is the average of the two most recent percentages of annual statewide increase in the consumer price index (CPI).

State Share: Information regarding the state share for early childhood education (and all other "program" costs) is described in Section III (Transportation).

Local Share: Information regarding the local share for early childhood education (and all other "program" costs) is described in Section III (Transportation).

Extent of Participation: All school units who expended money for any of the "programs" participate in this "program costs."

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only tax used by local governments. In 1993-94, $577.1 million was raised in property tax revenues for K-12 education purposes. Property is assessed locally each year. The local assessment may be based on an on-site inspection or by applying an adjustment factor to the prior year's assessed value of each parcel. Periodically, assessments based on on-site inspections are necessary, in order to comply with state standards. The equalized value of property (100 percent of market value; known in Maine as "State valuation of property") is estimated annually by the state, based on the relationship between local assessed value and sale price for property that has been sold during a year. Property taxes are levied based on the local assessed property values, but the fiscal capacity of each school unit, as used by the school funding formula, is based on the state valuation of property.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

There are no state-imposed limits on district spending or taxation.

Voter Approval of Budgets and Bond Issues

All budgets must be approved by the appropriate legislative body.

1. Large municipalities have a city council form of local government. The municipality budget, including the budget for the School Department of that municipality, is approved by the Council. The degree of council authority over the School Department's budget is determined by the city charter, which may allow the council authority over individual lines in the budget or may limit the council's authority to the total budget amount.

2. Smaller municipalities that operate their own School Department have a "town meeting." The town budget, including the budget for schools is approved by the town's residents in a town meeting.

3. Some municipalities have joined to form a school district. In most such cases, the residents of the member towns vote, a district budget meeting (similar to the town meeting discussed above) to approve a district school budget. In one type of district (called a "School Administrative District"), the voters of a district are permitted by law to determine whether they wish to approve of their district school budget by referendum. This has, in some instances, required a series of such referendums before a budget is finally approved. State law provides that if a fiscal year begins before a budget has been approved by referendum, the School Administrative District's proposed budget will serve as the actual budget until a new budget is finally approved by the voters.

All bond issues must be approved by referendum vote. This includes bond issues for minor capital items (such as roof repairs), as well as for the construction of new school facilities.

XV. EARMARKED STATE REVENUE

None.

XVI. SPECIAL TOPICS

Maine law provides for limited school choice. This choice is provided in two ways. First, if two superintendents agree, a student who resides in one school administrative unit is allowed to enroll in the other school unit as if the student were resident in the other school unit. In such instances, the state subsidy funds follow the student to the school unit of enrollment. A second method allows small school administrative units that do not operate schools in some (or all) grades to arrange for their resident pupils to be tuitioned to nearby public schools or to private schools that have been approved for tuition purposes. Choice may be involved in such instances, if the school administrative unit of residence offers their pupils some latitude regarding which nearby school to attend. Maine does not have a voucher system for school choice.

MARYLAND

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I. GENERAL BACKGROUND

State

- The state share of state-local revenues for current expenses reached a high of 43 percent in 1986-87 and 1987-88. In 1983, the Civiletti Commission called for sustained increase in state-aid over the next five years. In 1987, Action Plan for Education Excellence (APEX) was enacted. The 1992 special session of the legislature reduced funds for 1992-93 equivalent to estimated employer share of social security costs after the school year began. Beginning in the 1993-94 school year, state reimbursement for the employer share of social security costs was discontinued. As a result, the state share, which remained around the 43 percent level in the 1980s, declined to 41 percent in the 1993-94.

- The general fund formula has been basically the same since 1922 when a per-pupil amount for the foundation program was established. The dollar amount has been periodically increased. In 1958, state taxable personal income was added to the measure of local ability. The "maintenance of local effort" has been in the foundation formula since 1987. Because of the action of the state legislature in the 1992 special session, the maintenance of effort was suspended for the school years 1992-93 and 1993-94.

- State school funds are derived annually from state appropriations. About 27 percent of state revenue comes from the income tax and about 15 percent from general sales tax. Since 1987, state funding for elementary and secondary education is limited to a maximum of 31.5 percent of general revenues. State funding was 28.8 percent of general fund revenues in 1991-92 and 29.7 percent in 1993-94

- Maryland provides a foundation funding program intended to guarantee a set minimum or foundation level of per-pupil expenditures to children in all school systems of the state through a combination of state aid and local revenue. For 1992-93, the per-pupil foundation level was $2,976, of which the state provides 51.0 percent. The foundation level set is approximately 50 percent of statewide average per pupil expenditure of $5,978. The formula for the foundation level is 75 percent of the average of the amount spent in the third and fourth preceding fiscal year, which establishes a foundation level of $3,323 for 1994-95. For 1993-94, the foundation level set by statute is $3,167.

- The plight of Baltimore City and low spending rural counties continues to receive attention of both state officials and citizens' groups. The Hutchinson Report, the report of the task force established by the Governor in 1993, paid attention to the adequacy of the state funding level, the educational opportunity provided to children in schools with concentrations of low-income children, the results achieved for funds spent, and the integration of school and non-school services for children. This study group suggested that an adequate foundation level for 1998-99 would be $5,418, which is below $5,512, the average per-pupil spending for 1991-92 in the three school systems that met Maryland School Performance Program standards that year. The group also proposed targeting funds to schools with high concentrations of low-income students.

- The American Civil Liberties Union has instituted a legal challenge to the present state funding of schools citing the funding level of Baltimore City as not adequate for the students served.
- New state-funded programs are provided for limited English students and for school systems with average daily attendance above the statewide average. Programs for funding driver education and paying for the employer's share of Social Security were eliminated. State funds for pupil transportation except for special education were reduced. Since the increase in current expense aid was less than the decreases, total state aid dropped by about $17.0 million from 1992-93 to 1993-94.

Local

- In Maryland, the 24 school systems are fiscally dependent. Education is a function of the City of Baltimore and the 23 counties. In home rule counties, school boards are elected, otherwise, their members are appointed by the Governor. Cooperative agreements exist among the smaller counties for joint operation of special education programs and data processing.
- Financial support from local sources for the operation of public elementary and secondary schools are derived mainly from general fund revenues of the 24 political subdivisions. In addition to the property tax, all subdivisions can levy an income tax surtax on the amount of the Maryland State income tax liability Subdivisions can levy surtaxes of any percentage from 20 percent to 60 percent. Most subdivisions rely heavily on this source. When the 1992 special session of the state legislature reduced state aid, local subdivisions were given permission to increase the maximum rate of local piggyback tax on state income tax from 50 to 60 percent and most did so.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$2,078 million
Grants in aid	1,550 million	
Teacher retirement contributions	358 million	
FICA	0	
Total Local School Tax Revenue*		$2,344 million
Total Combined State and Local School Revenue		$4,422 million
State Financed Property Tax Credits Attributable to School Taxes	NA	

*Property and Income taxes for schools can not be distinguished as all are appropriations by local county government.

II. THE BASIC SUPPORT PROGRAM

Action Plan for Education Excellence

Funding in 1993-94: $1,224.7 million (58.9% of total state school aid).

Nature of Program: Foundation program, known generally as Basic Current Expense Aid, or since 1987, Action Plan for Education Excellence (APEX), (Education Article, Secs. 4-120 to 4-120.1, Secs. 5-202 to 5-204, Secs. 5-401 to 5-407).

Allocation Units: Pupils. Enrollment on September 30, 1992, of all pupils, both regular and special education, with Kindergarten enrollment counted at one-half.

Local Fiscal Capacity: Net taxable income for 1991 (the second preceding calendar year reported by the Comptroller) and assessed property values of real property for 1992 (the prior fiscal year as computed by the Department of Assessments and Taxation), and 50 percent of the assessed valuation of personal property for 1992 for each county. Assessed valuation as reported is equalized at 45 percent of the full market value, except for agricultural land, which is assessed at 50 percent of full market value.

How Formula Operates: By statute, APEX set the per-pupil foundation level prior to 1992-93 and in 1993-94. In 1992-93, and subsequent years except 1993-94, the foundation level for each child will equal 75 percent of the statewide average per-pupil expenditures in the third and fourth preceding year. For 1993-94, the amount set by statute is $3,167 and for 1994-95, the amount set by formula is $3,323. In 1993-94, the total cost of the APEX program is determined by multiplying the foundation level of $3,167 per pupil by the September 30, 1992 enrollment. The statewide local share of this total cost is determined by multiplying $1,552.30 times the same enrollment. Each local subdivision's share of this total is the subdivision's percentage of the state total taxable capacity. The state's share for each subdivision is the total program for that subdivision minus the local share based on taxable capacity.

Taxable capacity for a subdivision is the sum of net taxable income for 1991 and assessed valuation of property for July 1, 1992. Net taxable income is determined by using tax data for residents taken from state income tax returns. Assessed valuation of property in addition to real property of the county includes both real and public utility property assessed for state purposes and 50 percent of personal property assessed for county purposes.

State Share: The $1,552.30 per-pupil local contribution for state average is the sum of two amounts: (1) $280.80 (45% of $624) and $1,271.50 (50% of $2,543 or $3,167 – $624). The state payment for APEX is the sum of the state's share plus payments to counties for pupils crossing county lines to the closest school, and for foster care children. The state pays the difference if local cost in the receiving county is greater than the county of residence.

Local Share: The local share as calculated above for the State and each subdivision is used solely to determine state aid. In order to be eligible to receive basic current expense aid, a county must maintain education spending at least equal to the prior year's per-pupil expenditure multiplied by the current year's full-time enrollment. Furthermore, since 1985, additional state aid received over the prior year for basic current expense was to be spent only for instructional purposes and teachers' salaries. These provisions did not apply in 1991-92 and 1992-93, but did apply in 1993-94.

Adjustments for Special Factors: $3.9 million of state aid for basic current expense aid is to be set aside annually for vocational education. State reimburses counties for pupils attending counties outside of the county where the pupil resides.

Aid Distribution Schedule: The amount due each county is distributed in equal amounts on a bimonthly basis (every two months) upon certification of the State Superintendent of Education to the Comptroller. This certification is received within ten days before the end of July, September, November, January, March, and May. Within five days before the end of these months, the Comptroller requests the State Treasurer to issue a check for payment to each County and the City of Baltimore.

Districts Off Formula: None.

III. TRANSPORTATION

Student Transportation Formula (Block Grant)

Funding in 1993-94: $87.8 million (4.2% of total state school aid).

Description: Each LEA receives the amount established in statute for 1981-82, increased by the lesser of eight percent or the change in the Consumer Price Index for private transportation in the Baltimore Area for the second preceding year. Beginning in 1989-90, each subdivision was guaranteed the amount received previously increased by no less than three percent or more than eight percent. In 1992, the total amount provided by the state was reduced by state budget submitted by Governor to approximately 60 percent of previous total. The distribution is essentially the same as that which has prevailed since 1980-81. If the allocation received by LEA exceeds its actual transportation costs, the LEA may apply funds to costs of pupil transportation in subsequent years (Education Article Secs. 5-203 and

8-412.) In addition to this total, $2.5 million is provided for transporting handicapped students on a formula based on $500 per handicapped student in need of special transportation in excess of the number transported in 1980-81.

State and Local Shares: There is no local share unless transportation expenditures exceed those of 1981-82. State share can exceed expenditures in a given year.

Extent of Participation: 24 LEAs (100%).

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay
School Construction (New)

Funding in 1993-94: $84.1 million (4.0% of total state school aid).

Description of Program: Since 1971, the state has funded school construction costs except for site acquisition. Since then, statewide the state provides 60 percent of the costs approved projects and the localities 40 percent, with the actual share of an LEA depending on which of four wealth classes an LEA falls. The poorest LEAs have a local share of 25 percent, the wealthiest, 50 percent. The intermediate groups share 35 and 45 percent as the local portion. The Interagency Committee approves projects based on annual submissions by local education agencies of master plans for school construction (Education Article, Sec. 5-403).

Extent of Participation: 23 LEAs (95.8%).

Debt Service
School Construction (Pre-1971)

Funding in 1993-94: $2.1 million (less than 1.0% of total state school aid).

Description: In 1971, when a fully funded public school construction program was established, the state assumed responsibility for repayment of all local debt service obligations on local public school construction bonds issued prior to June 30, 1967. The program will terminate after 1997-98 when all remaining 30-year bonds are paid off. The state pays 100-percent of local obligation. In 1979-80, only one LEA did not participate. By 1984-85, five more LEAs received nothing (Education Article, Sec. 5-301). By 1990-91, 10 more LEAs did not participate.

Extent of Participation: 6 LEAs (25.0%).

Local Capital Project Financing

Except for construction that the LEA wishes to have state assistance for, there are no special capital requirements. Bonds for school construction typically are issues of the state and not the localities. County commissioners may issue bonds when so authorized by the state legislature.

V. TEACHER RETIREMENT

Funding in 1993-94: $358.0 million (17.2% of total state school aid).

Description: The state payments go directly to the Retirement System on behalf of the LEAs (Article 738, Secs. 81-103 and 140-156).

The State Teacher Retirement System was established in 1924 and the state paid all costs except for employee contributions. Employee contributions were designed to provide one-half of the defined benefit provided at retirement. The original plan had contribution rates based on sex and age when one entered the plan. Membership in the system was compulsory until 1980. Teachers contribute the lesser percentage of salary of either that required by the old sex-age contribution rates, or either five percent or 7.5 percent. Those teachers who chose the 7.5 percent rate have their benefits increase annually with the change in the Consumer Price Index without any limit. Those opting for the five percent rate or the old sex-age contribution rate have the annual increase in their retirement benefits limited to a cap of three percent of the initial benefit payment. Lately, this contribution has been taken before calculation of Federal Income Tax liability. Since 1980, in addition to State Teacher Retirement System, a State Teacher Pension System exists. No contribution by employees is required until income exceeds the Social Security Wage Base. This plan provides a defined benefit integrated with Social Security payments. The state payment above is for both the Retirement Plan and the Pension Plan as the state administration of both is combined.

State and Local Share: Localities provide about 11 percent of the employers' share of retirement funds for employees on Federal grants or beyond staffing level of state support. Localities can supplement the state retirement plan by making additional payments on behalf of employees, thereby entitling employees to higher retirement payments. The state does not share in these supplemental plans and the localities pay both the employee and employer portion. Negotiated agreements provide for private purveyors of tax-sheltered annuities in addition to the state provided plan. In some instances, there are local system contributions beyond those of employees. There is no continuos collection of these data.

Extent of Participation: 24 LEAs (100%)

Social Security

The state no longer provides funds for payment of the local employer share of Social Security.

VI. SPECIAL EDUCATION

Funding in 1993-94: $129.1 million (6.2% of total state school aid).

Description: There are three separate programs for special education (Education Article Secs. 8-40 and 8-416). The first program of $100 million, established in 1978-79, has a state share of $70 million and a local share of $30 million. Since 1987-88, an additional $11.2 million is provided by the state for this program. The second program provides funding for non-public school placements ($46.1 million of the total). Since 1987-88, a third program provides funds to assist "returnees" — handicapped children placed out-of-state and returned to Maryland — to lessen future out-of-state placements. (See Transportation for special education transportation funds.)

State Share: For the first program, the total state share is fixed at $81.2 million. The first $70 million is fixed at the amount provided each LEA in 1980-81. The remaining $11.2 million is distributed based on wealth per student and total enrollment of special education pupils. For non-public placements, the state pays any costs above the local share.

Local Share: For the first program, the local share is equal to all expenditures above the state share. For non-public school placements, the local share is limited and the state pays all costs above local share. The local share is equal to no more than three times the basic cost of educating a non-handicapped student.

Extent of Participation: 24 LEAs (100%).

VII. COMPENSATORY AID

Compensatory Education

Funding in 1993-94: $85.1 million (4.1% of total state school aid).

Description: The statewide total for Compensatory Education (Education Article, Secs. 5-202, 8-101 - 8-107) is determined by multiplying the number of Chapter I eligibles by $792 (25 percent of the basic aid level of $3,167).

The statewide average amount provided per Chapter I eligible is determined by a reduction factor that maintains total state funding at $85.1 million. The amount provided each LEA is determined by first obtaining the product of multiplying $792 by the Chapter I eligibles in the LEA. This product is then divided by the ratio of LEA per-pupil wealth for the APEX program over the statewide average pupil wealth. The result is used to obtain the amount an LEA would receive if there were no cap on available state funds. The reduction factor is equal to the state appropriation divided by the total statewide amount LEAs would receive if there were no cap on available state funds.

All compensatory funds must be used for instructional programs. Only a portion of the funds are dedicated for disadvantage pupils. The dedicated portion is equal to $70 per Chapter I eligible pupil in the prior fiscal year plus 25 percent of any increase in compensatory aid over 1985 fiscal year level. This provision reflects the fact that prior to 1985 the program was a flat grant per Chapter I eligible child and not an amount inversely related to wealth of the LEA. This provision also reflects the fact that poorer LEAs with either a large number of Title I eligibles or a large percentage of all students as Title I eligible might want to use the funds to improve the instructional program for all students.

State Share: To amount budgeted.

Local Share: Costs in excess of state and Federal aid.

Extent of Participation: 24 LEAs (100%).

VIII. GIFTED AND TALENTED EDUCATION

This program provides $2.1 million dollars (less 1.0% of total state school aid) to 7 of 24 LEAs.

IX. BILINGUAL EDUCATION

Non- and Limited-English Proficient Students

Funding In 1993-94: $5.9 million (less than 1.0% of total state school aid).

Description: The General Assembly allocated, on a one-time basis, $500 for every student identified as limited English proficient for 1993-94. The 1994 legislature extended and expanded this program for 1994-95 and subsequent years (Section 5-203.1).

State Share: Limited to the $500 per pupil appropriated.

Local Share: Cost of program beyond $500 of state appropriations.

Extent of Participation: 4 LEAs (16.6%).

X. OTHER CATEGORICAL K-12 PROGRAMS

Innovative Programs

Funding in 1993-94: $14.7 million (less than 1.0% of total state school aid).

Description: Innovative Programs include Project Basic, Rural School Enhancement, Rural School Nurses, Outward Bound, Principal Assessment, Magnet Schools, and Math/Science Initiatives. Of the $14.7 million, $13.0 million goes to one county for Magnet Schools, used as a means to achieve court-imposed integration rules. Math/Science Initiatives of $0.9 million include three programs; one for purchase of scientific equipment; a second for two counties to make improvements in their Gifted and Talented Education Program; a third for subdivisions to make instructional improvements in math/science area.

State Share: To extent of appropriation.

Local Share: Any funds needed beyond state appropriation for operation.

Extent of Participation: 21 LEAs (87.5%).

Children-At-Risk

Funding in 1993-94: $10.4 million (less than 1.0% of total state school aid).

Description: Funds are distributed to address problems of children-at-risk in three areas: Suicide Prevention, Teen Pregnancy, and Child Abuse. The Maryland Tomorrow Program provides $3.0 million for drop-out prevention.

State Share: To extent of appropriation for program specified.

Local Share: None.

Extent of Participation: 24 LEAs (100%).

Challenge Grants

Funding in 1993-94: $8.0 million (less than 1.0% of total state school aid).

Description: Challenge grants are made to low-performing schools prepared to undertake significant restructuring of their educational programs. The grants are directly to low-performing schools and their staffs and not to LEAs.

Average Attendance Grants

Funding in 1993-94: $5.9 million (less than 1.0% of total state school aid).

Description: School systems receive $900 per student for the percentage of their students in attendance in excess of the state average attendance rate.

Food Services

Funding in 1993-94: $4.3 million (less than 1.0% of total state school aid).

Description: For eligible children based on family income, family size, and participation in social services or welfare programs, the state provides all the funds not federally provided for free and subsidized breakfasts and lunches. The state rate for subsidized meals is higher for free meals because federal funding is higher for the free program. All public schools must provide the program except that elementary schools can be excused from the breakfast program when the participation rate for the past three months is less than 25 percent of the eligible students (Education Article, Secs. 501-5A-03).

State Share: To the amount appropriated, 100 percent of non-federal funds.

Local Share: None.

Extent of Participation: 24 LEAs (100%).

Community Centers

Funding in 1993-94: $0.7 million (less than 1.0% of total state school aid).

Description: Community Center funds are provided to utilize school buildings during evenings and weekends to provide youth and adults with supplementary education and leisure programs. There are 635 centers statewide (Annual Budget Bill).

State Share: Same as share in Basic Current Expense Program.

Local Share: Same as share in Basic Current Expense Program.

Extent of Participation: 24 LEAs (100%).

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Extended Elementary Education

Funding in 1993-94: $11.6 million (less than 1.0% of total state school aid).

Description: Since 1980, the state has provided funds for a public school pre-kindergarten program for 4-year-old children identified as having a high potential for failure in school. It is estimated that 5,260 students were served.

Funds are distributed to schools where achievement levels are low. The State Department of Education determines which students and schools receive funds.

State Share: The amount approved.

Local Share: Cost in excess of state funds.

Extent of Participation: 23 LEAs (95.8%).

XIII. LOCAL SCHOOL REVENUE

Local governments derive their tax revenues from two primary sources — the property tax and the income tax.

Each LEA is fiscally dependent upon the government unit in which it is located. There is a single school district in each of the 23 counties and the City of Baltimore. All school funds are thus local appropriations. Statewide, schools account for slightly less than 50 percent of all local appropriations with most subdivisions using more than 40 percent of local funds for schools. In Baltimore City, schools account for less than 25 percent of local funds raised. In Worcester County; with a larger summer resort population, schools receive about 33 percent of local appropriations.

Property taxes account for 27 cents of the local government revenue dollar; grants-in-aid account for a quarter; income taxes, 15 cents; service charges, 10 cents; federal grants, 8 cents; other local taxes, 6 cents; state-shared taxes, 4 cents.

Property Tax

Tax levies are on the valuation of property, which is assessed under the supervision of the state. The State Department of Assessments and Taxation values one-third of all real property in each of the subdivisions on a physical inspection prior to the January 1st date for valuation. Any increase in full cash value (market value) is phased in equally over the next three years. The assessment for each taxable year is 40 percent of the phased-in full cash value beginning January 1992. Agricultural property is assessed at 50 percent of new phased-in market value, the value set by constitutional amendment. State assessments of real property are generally near the percentage set by law. The phasing-in tries to adjust for sudden fluctuation in value. The taxable value can differ for the state, municipality, and the county. Property that is a primary personal residence cannot have its taxable assessment increased by more than ten percent annually for state purposes (with percentages less than ten permitted to counties and municipalities). Taxable assessed valuations can be below the actual assessed valuation.

Income Tax

Counties are allowed to levy an income tax surcharge between 20 and 60 percent of the state income tax liability in five percent increments. These moneys are collected by the state on the state income tax returns. A percentage of the income tax receipts received by the county must be shared with the municipalities within the county. Four counties levied the maximum of 60 percent in 1993-94. One levied 30 percent and one 55 percent. The majority levied 50 percent. Before 1993, the maximum county surcharge on state income taxes was 50 percent and all counties, except one and the City of Baltimore, levied the maximum rate of 50 percent. Five years ago only 19 of 24 subdivisions levied the maximum rate. The county surcharge on income taxes was first permitted in 1958 when personal income was added to the fiscal capacity measure for current expense state aid for local schools. The counties do not need to designate the purpose of the tax for school or non-school purposes. Most counties indicate the share of property taxes raised for schools in property tax bills and the share of income taxes in budget or public hearings even though the schools receive local county appropriation with no indication of tax source.

Tax Credits and Exemptions

The taxable value differs for state, county, and municipality because of the "Homestead Tax Credit." Property that is a primary residence has its assessment increase limited to ten percent annually for the state property tax. Counties and municipalities must set an assessment cap of ten percent or less each year.

The homeowners' property tax credit is available on homes with $60,000 assessed valuation or less ($150,000 full market value or less) on a sliding scale when property taxes are more than .0626 of gross household income at $30,000, .049 of gross household income at $20,000, .02 of gross household income at $10,000, and .005 of gross household income at $5,000. There is a renters' tax credit program of up to $600 a year for renters aged 60 years, totally disabled, or under age 60 if one has a dependent child and meets income qualifications.

XIV. TAX AND SPENDING LIMITS

State aid to elementary and secondary schools cannot exceed 31.5 percent of state general revenues.

Tax Limits

Although some local governments have self-imposed property tax limitations, the state does not limit the amount of property tax a local government may level. Other local taxes when authorized by the state are usually subject to limitations set forth in state law. Other local taxes such as energy and utilities taxes are for general government purposes. The rate for the local income tax on state income tax liability must be between 20 and 60 percent in 5 percent intervals. Of the amount so collected by the local government, 8.5 percent must be shared with municipalities and special taxing districts.

Spending Limits

Several localities have tax or spending limitation laws that apply to all county purposes. Only in Talbot County has this affected the amount of money available to schools — falling below the local contribution required by state current expense law.

Voter Approval of Budgets and Bond Issues

Tax rates require the approval of the board of county commissioners for the counties and of the city council for the City of Baltimore. There is no provision for the approval of tax rates by the electorate. Several counties, such as Prince George's and Talbot, have adopted local tax limitation laws on property taxes for all purposes. The Hutchinson Report seeks to have localities such as Talbot levy the tax amount locally required to finance the foundation program. There are no state laws limiting tax rates for either current operation or debt service.

XV. EARMARKED STATE REVENUE

None for schools. Driver's license fee for driver education at private firms.

XVI. SPECIAL TOPICS

Educational Alternatives, Inc. (EAI) has a five year contract for operation of eight elementary and one middle school in Baltimore City Schools. EAI operates in Baltimore City as a partnership called the *Alliance for Schools that Work*, which consists of EAI for instructional services, Johnson World Services as facility management corporation for non-instructional services, and KPMG Peat Marwick as the accounting and consulting firm. Sylvan Learning Systems, a for-profit company, administers the Title I tutoring program at six other schools.

Servicemaster has the building operations in Kent County.

Marriott Food Services runs several school lunch programs.

Under the state standards for achievement testing, schools with low-performing scores are given Challenge grants to undertake significant restructuring of their educational programs. If such schools continue to underperform for several years, they are subject to reconstitution by the state. Reconstitution by the state means that the local school board, the local school, or either of these groups in conjunction with private firms or universities can propose a plan to improve achievement scores and be given extra funds by the state for this purpose. Patterson High School in Baltimore City under such a plan is being aided by Johns Hopkin and Howard Universities.

MASSACHUSETTS

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I. GENERAL BACKGROUND

State

- In 1993, the Massachusetts Legislature passed the Education Reform Act that radically changed the method for funding education in the Commonwealth of Massachusetts. Prior to the passage of the Education Reform Act, the methods utilized by the state for funding public education moved along a continuum from poor to disastrous. During the 1970s and early 1980s, the state used a percentage-equalizing formula that was subsequently replaced by a loosely configured foundation program known as the Needs-Based Formula. However, none of these methods was ever adequately funded by the state, and with the recession hitting Massachusetts hard during the 1980s, state funding for public schools fell to a historic low (25%). In June 1993, a ruling in a state school finance lawsuit was handed down in favor of plaintiff school districts, adding impetus to legislative efforts in formulating a more equitable method for funding schools. The resulting outcome was the development of a foundation formula funding program.

- Under the Education Reform Act and subject to appropriation, state funds for "educational improvement" are earmarked for education by the legislature and come out of the State General Fund. Specific amounts over and above current amounts have been designated to be spent on education up until FY 2000. They are: FY 1994 — $140 million; FY 1995 — $150 million; FY 1996 — $150 million; FY 1997 — $150 million; FY 1998 — $150 million; FY 1999 — $180 million; and in FY 2000 — $180 million. These funds are in addition to current prior year amounts of state aid that districts are already receiving.

- The additional monies earmarked for education are distributed through several aid programs: foundation aid, equity aid, overburden aid, minimum aid, new regional aid, and in some cases, new choice aid. Every district receives at least $25 per student in new aid, over and above "base aid" received by the district. "Base Aid" refers to the amount of aid a district received in FY 1993; this base aid forms the initial layer of state aid each district receives. Foundation Aid is new aid given to districts that are below a foundation level of $5,500 per student. Equity Aid is aid given to communities that tax themselves above a required local effort (RLE) of $9.40 per $1,000. Equity aid does not have to be spent on education; rather it is a "reward" for the communities to use however they see fit. Overburden aid is aid given to communities of lower property wealth who also have a low tax effort, but would be severely affected by large increase in the RLE. Minimum Aid is aid given to districts that are able to fund the basic student allocation of $5,500 per student without the use of state funds. Minimum Aid equals $25 per student. New Regional Aid is provided to districts that voluntarily form new regional school districts. School Choice Aid is provided to districts that are under foundation level and lose students to other districts through the state's school choice program. This program reimburses the districts either partially or fully — depending upon district wealth — for the transfer of state funds out of the sending school district to the receiving school district.

- Current district profiles are then used to determine eligibility for the different aid programs. There are four categories into which districts fit:

  1. *Above foundation/Above effort.* Districts in this category already spend $5,500 or above per pupil, and tax themselves at or above the RLE of $1,000. These districts, if they wish, may reduce their local contribution

down to an amount that will sustain the foundation budget. These districts are eligible for both minimum aid and equity aid.

2. *Below foundation/Above effort.* Districts in this category are currently taxing themselves above the RLE yet are unable to fund the foundation level of $5,500. These districts are eligible for foundation aid and equity aid.
3. *Above foundation/Below effort.* These districts fund a foundation level of $5,500 but do not tax themselves at the RLE of $9.40 per $1,000. Districts in this situation must increase their local contribution by their "municipal growth factor" to gradually assist them in reaching the required standard of effort. These districts are eligible for Minimum Aid.
4. *Below foundation/Below effort.* These districts neither tax themselves at the required standard of effort nor fund at the foundation level of $5,500. These districts must raise their local tax rate to a rate determined by the state Department of Revenue (DOR). This action moves these districts towards the RLE of $9.40, thus forcing the districts to increase their local responsibility for supporting education. These districts receive foundation aid.

- The Education Reform Act provides for the continuation of the statewide school choice program enacted in 1991. This program allows any student in any district to attend another district if that district has indicated that they are open to accepting choice students. If the district does not wish to participate in the choice program, then the district's school committee must, by June 1st of each year, vote to not accept choice students after a public hearing on the issue has been held. If a district chooses to operate an intra-district choice program, out-of-district student must be allowed to attend if there is space. Tuition accompanying the choice students that is paid to the receiving district must equal 75 percent of the receiving district's actual per pupil cost, not to exceed $5,000. The tuition amount for choice students is deducted from the sending district's state aid prior to the distribution of state aid to that district. Districts under the foundation amount of $5,500 are reimbursed for all of the choice tuition they lose. Such districts must apply to the state for these reimbursements, and along with their application submit an "educational corrective action plan" outlining the district's strategies for improving their schools within seven different areas.

Local

- There are 361 local education agencies (LEAs) in the Commonwealth of Massachusetts. This number is comprised of regional school districts, vocational regional school districts, independent vocational schools, county agricultural schools, and independent school districts.
- Property taxes constitute the major local basis of support for public schools. Other fees, i.e., user fees and licenses, and the vehicles excise taxes also contribute funds, but the property tax provides most of the money. Any property tax increase over the 2.5 percent requires voter approval.
- There is a legal limitation on the amount property taxes can be raised. This limitation, known as Proposition 2 1/2, was passed in 1980 and greatly affected monies for schools (see section XIV — Tax and Spending Limitations).

Funding Summary, 1993-94

Funding information could not be obtained by the author or editors for the 1993-94 school year.

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: Information not available.

Nature of Program: Foundation. The school aid program is a minimum foundation program. It mandates that every district must establish a foundation budget prefaced upon spending at least $5,500 per student. In order to assist in paying for this BSA, districts must levy an RLE of $9.40 per $1,000 of property wealth. Districts who currently do not spend $5,500 per student and/or do not tax themselves at the required local effort (RLE), have a RLE set for them annually by the Massachusetts Department of Revenue (DOR) until the year 2000, by which time all districts should be at the RLE of $9.40. Districts receive varying amounts of support from the state depending upon district wealth; however, all districts receive at least $25 in new state aid annually. Foundation aid allocated by the foundation formula is earmarked for education, as is the $25 per student of minimum aid.

Allocation Units: Pupils. Full-time equivalent. Eleven different "enrollment categories" of students are identified, but these are not weighted categories. Instead, dollar figures are assigned to different district staff positions and then multiplied by the various enrollment categories.

Local Fiscal Capacity: Equalized assessed property valuation.

How Formula Operates: The process of determining the amount of state aid each district receives begins with each district receiving at least the amount of state aid they received during FY 1993. This amount of aid is called "Chapter 70 base aid." On top of that amount, districts may be eligible for three other types of aid: (1) foundation aid, or (2) minimum aid, and (3) equity aid.

Each district develops a foundation budget that is the sum total of the following expenses: payroll, non-salary expenses (benefits, ordinary maintenance, and utility, etc.), expanded program enrollment (expanded services to low-income students), extraordinary maintenance, book and equipment costs, and professional development. The budget is premised upon the underlying foundation amount per pupil of at least $5,500. Given the disparities in spending that exist in the state, districts have until FY 2000 to reach a budget figure that reflects the $5,500 figure, annually adjusted for inflation.

The formula then calls for districts to subtract from their proposed foundation budget the amount of money they actually spent during the previous year to derive what is known as the "spending gap." The spending gap constitutes the discrepancy existing between the amount needed to fund the proposed district foundation budget for the next year and the actual amount funded by the district during the current year. For some districts the spending gap is extremely large; for others, there is no spending gap because they already are spending at or above the foundation amount of $5,500. Since for many districts, the task of making up the spending gap in one year would be too onerous, the state determines annually what percentage of the spending gap must be covered each year. For example, for FY 1995, the state determined that districts must make up 38 percent of their spending gap.

If a district is currently taxing itself above the state mandated minimum — $9.40 per $1,000 — but is under the foundation level, then the state contributes the amount of the spending gap to be covered. This is known as foundation aid. If a district is taxing itself at a rate below the state mandated minimum, then the local district must come up with some of the money necessary to cover the percentage of the spending gap required by the state. The state will provide the rest in the form of foundation aid.

In order not to penalize districts that already are funding the foundation amount of $5,500 through their local contribution, the state has devised a "minimum aid" category that guarantees at least $25 per student to any district that does not receive any foundation aid. Districts whose foundation aid amount does not equal $25 per student also receive minimum aid, the amount of which when coupled with foundation aid equals $25 per student.

Districts expending a high standard of effort are rewarded by receiving "equity aid." Equity aid is not earmarked for education; it is directed to the community and may be used however the community wishes to use it.

To determine the local contribution for each community, the Massachusetts DOR first calculates the "adjusted equalized valuation" for each district:

$$\frac{\text{1992 Equalized Valuation x 1989 Average Income}}{\text{State Average Income}}$$

and then the school tax rate:

$$\frac{\text{FY 1994 Local Contribution}}{\text{Adjusted Equalized Valuation}}$$

After determining the tax rate, the DOR calculates what the FY 1995 Gross Standard of Effort should be for each community:

FY 1994 Gross Standard of Effort x District's Municipal Revenue Growth Factor

An estimated growth factor of 2.6 percent is used. The standard of effort for each community then becomes either the gross standard of effort *or* the foundation budget minus all state monies — whichever is larger. These calculations by the DOR ultimately determine how much of the spending gap the state will cover for districts that are below the required standard of effort ($9.40) and below the foundation amount ($5,500). For poorer districts, their local contribution will increase by the municipal growth factor (2.6%) and the state will cover the rest of the spending gap; for districts that have been underfunding education but are financially able to pay more, they will be required to cover more. Districts for which the higher RLE places a more onerous burden upon the community and its ability to fund other services will receive overburden aid (that goes to the town) in proportion to their fiscal capacity.

State Share: The state share consists of base aid (whatever amount of aid districts received from the state in FY 1993) and then foundation aid or minimum aid as "new aid." Local communities who meet certain requirements also receive equity aid or overburden aid. This aid is not earmarked for education and can be used for municipal needs.

Weighting Procedures: Students are not weighted, however "enrollment categories" are used to determine total salary expenditures necessary to fund different types of personnel for specific grade levels.

Adjustment for Special Factors: A wage adjustment factor is used.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: Information not available.

Description: Transportation is not part of the Education Reform Act. There are two kinds of state aid programs for transportation. The first is for Regional School Districts, in which these districts are reimbursed 100 percent of the cost of school transportation (Chapter 74, Sec. 8A), if enough money is appropriated.

The second state aid program for school transportation assists school districts that are not regionalized. There are five different funding programs that provide monies for non-regionalized transportation. All reimbursements are subject to appropriation.

1. Under Chapter 71, Sec. 7A, school districts are reimbursed a certain percentage of the cost of the previous year's expenses for transportation. This reimbursement is subject to appropriation. The costs incurred are for students being transported who live at least 1.5 miles from school.

2. Chapter 71, Sec. 7B, reimburses the cost of transportation for those students who use public transportation. Aid is the lesser of: the direct cost of transportation, the indirect cost of maintaining a public transportation service, or 20 cents a day per rider. Students must live 1.5 miles from school. Payment is made during the following year.

3. Chapter 76, Sec. 12A, reimburses 100 percent for students transported to alleviate racial isolation. There is no mileage limitation.

4. Chapter 71A, Sec. 8, Chapter 71B, Sec. 14, outlines reimbursement for bilingual and special needs student. Districts are reimbursed for the prior year's expenses by calculating the local cost for a regular rider, plus the difference between that cost and the special needs or bilingual student's cost. This difference cannot exceed 110 percent of the state average difference.

5. Chapter 74, Sec. 8A provides funds for transporting students to vocational programs outside their school districts. Districts are reimbursed 50 percent of the cost, or 100 percent if the student has been placed by the Department Social Services or the Trustees of the Massachusetts Training Schools.

Extent of Participation: 361 LEAs

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

School Building Assistance

Funding in 1993-94: Information not available.

Description: Aid for construction of new facilities is provided on a percentage equalizing basis. The approved costs are multiplied by a percent factor between 50 percent and 90 percent. In the case of a regional school district, each member town's percentage is calculated individually depending upon its proportion of students attending the regionalized district. Every town has a particular percentage, which is listed in Chapter 746 of the Acts of 1987.

Any district that wishes to construct a facility that will alleviate racial isolation receives 90 percent reimbursement for costs incurred.

Extent of Participation: A district must get on the list of approved plans for building construction, so the number of LEAs participating varies in any given year.

V. TEACHER RETIREMENT

Funding in 1993-94: Information not available.

Description: All teachers are members of the Teacher's Retirement Fund (TRF). Teachers pay either five, seven, or eight percent of their salary depending on when they entered teaching service; newer teachers pay less. In FY 1988, legislation was passed that required teachers entering service after 1979 and who make more than $30,000 to pay an additional two percent of their salary towards retirement on that portion of salary greater than $30,000. The Teacher Retirement Board determines the amount of money necessary each fiscal year needed to fund the TRF.

State and Local Shares: The state pays that portion of total retirement costs that are not covered by teacher contributions. Generally, state contributions account for 90 percent or greater of total retirement costs each year. Local districts do not contribute toward teacher retirement.

Retired Teachers Pension

Funding in 1993-94: Information not available.

Description: This funding is provided under Chapter 32, Sec. 20(2)(c), and funds teacher pensions for retired teachers of the Boston School District. Boston is the only district in the state that is not a member in the State Teachers Retirement System.

VI. SPECIAL EDUCATION

Students receiving special education services are included in the foundation enrollment categories along with regular day students, however, there are additional monies provided to districts for special education costs. These are:

1. Assumed tuitioned-out special education enrollment — one percent of the total foundation enrollment in a district, not counting vocational or pre-school enrollment multiplied by $13,500 per student;
2. Assumed in-school special education enrollment — 3.5 percent of total foundation enrollment of a district not counting vocational or pre-school enrollment, plus 4.5 percent of vocational enrollment.

VII. COMPENSATORY EDUCATION

Students at risk are included in two of the 11 enrollment categories used in the foundation formula.

VIII. GIFTED AND TALENTED

None.

IX. BILINGUAL EDUCATION

Bilingual education students are included as one of the 11 enrollment categories used in the foundation formula.

X. OTHER CATEGORICAL PROGRAMS

Regional School Aid

Funding in 1993-94: Information not available.

Description: Regional school districts are reimbursed for a percentage of instruction and administrative costs (Chapter 71, Sec. 16D). This is a bonus program. Cities and towns that are members of a regionalized district continue to receive the state aid for education to which they are entitled; however, the regional school district itself also receives aid. Rate of reimbursement is determined by the following formula:

$$(1.00-.65) \times \frac{\text{Equalized Value per School Attending Child — Local}}{\text{Equalized Value per School Attending Child — State}}$$

x .50 for partial regions
x .70 for full regions

No regionalized district can receive less than 76 percent of the amount of state aid it was supposed to receive in FY 1993 had the full amount of state aid necessary to fund education for that year been appropriated.

Additionally, under the new Education Reform Act, districts that form regional school districts are rewarded with "regional bonus aid" in the following amounts: $50 per foundation enrollment in the first fiscal year following the establishment of the regional school district; $40 per foundation enrollment in the second fiscal year; $30 per foundation enrollment in the third fiscal year; $20 per foundation enrollment in the fourth fiscal year; and $10 per foundation enrollment in the fifth fiscal year.

Extent of Participation: 89 LEAs.

Racial Equality

Funding in 1993-94: Information not available.

Description: Three separate programs but funded as one: (1) Racial Imbalance, Chapter 76, Sec. 12A; (2) Magnet Education, Chapter 71, Sec. 37I and 37J; and (3) Equal Education Improvement, Chapter 15, Sec. 1I.

The first program, Racial Imbalance, funds current year's local expenses of projects approved by the Board of Education for reducing racial imbalance.

The second program, Magnet Education, funds current year's expenses for programs that draw racially isolated students to other magnet schools.

The third program, Equal Education Improvement, provides monies to districts that transport students to achieve racial balance.

State Share: The state pays the full cost of these programs.

Extent of Participation: 55 LEAs.

School Lunch Program

Funding in 1993-94: Information not available.

Description: Districts are reimbursed for part of the cost of school lunches. The reimbursement is the required amount of 30 percent of the 1981-82 federal contribution for approved school lunches.

Extent of Participation: 348 LEAs

Tuition for Foster Care Children

Funding in 1993-94: Information not available.

Description: Tuition for students who are in foster care is fully reimbursed by the state both at the elementary and secondary levels.

Extent of Participation:

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Prekindergarten education is funded through the foundation formula.

XIII. LOCAL SCHOOL REVENUE

Property taxes constitute the major local source of support for public schools. Other fees, such as user fees and licenses, and vehicle excise tax, are also a source of funds. Any property tax increase requires voter approval. See section XIV.

XIV. TAX AND SPENDING LIMITS

There is a legal limitation on the amount property taxes can be raised. This limitation, known as Proposition 2 1/2, was passed in 1980. Proposition 2 1/2 mandates that no community can levy more than 2.5 percent of the total cash value of taxable property in the community; and that the levy can only increase by 2.5 percent each year, unless new growth has occurred in the community. If a community's government wishes to increase the levy more than 2.5 percent, then an override vote must be held. A majority of voters must approve the measure for an override to pass.

Prior to Proposition 2 1/2, school committees were fiscally independent, and local property taxes were raised in accordance with school budget needs. During the late 1980s and early 1990s, the state experienced huge revenue shortfalls resulting in a sharp decrease in funding for schools. In absence of state support, school committees looked to towns to support increases in educational spending through overrides; however, most attempts to secure additional local funding through override have been unsuccessful due to voter perception of tax overburden. Since the passage of the Education Reform Act of 1993, state funding for education K-12 has substantially increased.

XV. EARMARKED STATE REVENUE

Under the Education Reform Act, state monies are earmarked for schools through the different funding mechanisms: (1) base aid, (2) foundation aid, and (3) minimum aid.

XVI. SPECIAL TOPICS

None.

MICHIGAN

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The 1994-95 Michigan State education finance program is described.

I. GENERAL BACKGROUND

State

- In late July of 1993, in lightning-like fashion, the Michigan Legislature eliminated entirely the local property tax as a source of operating revenue for the public schools. The public school establishment awakened on the morning of July 22, 1993, to find, as a result of the Legislature's action, fully two-thirds of its operating revenues wiped out and no immediate prospects for how that revenue was to be replaced. The Legislature not only had thrown out the local property tax as a source of school funding, it had done so without making any provision whatsoever for replacing the lost $6.5 billion.

- Governor John Engler moved rapidly to capitalize on the opportunity presented by this action. He delivered a special message to a joint session of the Legislature in early October 1993, and followed this almost immediately with the release of a detailed three-part plan for (1) replacing the revenue lost by the elimination of the local property tax, (2) creating a new mechanism for allocating funds to the schools, and (3) setting in place the policies and actions seen as necessary to achieving meaningful education reform.

- The linch-pin of the Governor's funding proposal was a two percentage point increase in the state general sales tax — from four percent to six percent. Under the Michigan Constitution, an increase in the general sales tax cannot be enacted statutorily, but rather must be approved by a vote of the people. Thus, the Governor immediately requested the Legislature to place the issue, known as Proposal A, on the ballot for a vote in early 1994. A counterproposal, fashioned by a bipartisan team of legislators in the House, put forth a funding plan that, in effect, supported the Governor's plan but provided a statutory fall-back that would automatically take effect if voters failed to approve the sales tax increase. The statutory fall-back called for a 1.6 percentage point increase in the personal income tax as the major source of replacement revenues. Both plans called for a partial restoration of the property tax — a portion to be levied locally and a portion to be levied by the state. Following a marathon session of the Legislature, agreement on the two-option package was reached on Christmas Eve 1993, with a statewide vote scheduled for mid-March 1994.

- On March 15, 1994, the people of Michigan spoke resoundingly and — by a 69-31 margin — rejected the income tax increase and cast their lot with the two percent increase in the general sales tax. *As a part of the package, a portion of the property tax is restored — a state levy of six mills on all property and a local levy (requiring voter authorization) of 18 mills on non-homestead property (i.e., all property except owner-occupied residences and "qualified agricultural property"). In addition, high revenue districts are able to levy "hold harmless" millage, and all districts — for the next three years — may levy up to three "enhancement" mills with voter approval.* The net result for the public schools is a total funding package for 1994-95 of some $10.3 billion, approximately a four percent increase over 1993-94. The net result for Michigan education as a whole is a substantial shift in funding responsibility from the local level to the state level, as well as a shift away from the property tax as the major revenue source.

Total Revenues

Source	*1993-94*	*1994-95*
Local	66%	21%
State	33%	79%

Property Tax vs. Other Revenues

Source	*1993-94*	*1994-95*
Property Tax	66%	32%*
Other	33%	68%

*Includes both state and local property tax revenues — state share of the total is 11%; the local share is 21%.

- Under the new finance plan, the general sales tax is the major source of state revenues for K-12 education. With the passage of Proposal A, the sales tax increased from four percent to six percent, with the increased revenue earmarked entirely for the School Aid Fund. The Michigan Constitution already required that 60 percent of the net revenue generated from the existing four percent sales tax rate be deposited in the School Aid Fund. Thus, 60 percent of the revenue generated from the first four percent tax on general sales, plus 100 percent of the revenue from the additional two percent tax on general sales, are constitutionally earmarked to the School Aid Fund. Other state revenue sources — or portions of them — also are earmarked for the fund. These other sources include revenue from the newly imposed six mill state property tax, the personal income tax, the tobacco tax, the liquor tax, the tax on commercial and industrial facilities, other miscellaneous taxes, and the lottery. A transfer from the general fund along with additional state revenues make up the remaining difference.

- The Michigan Legislature, as part of its education reform legislation, initiated a new and different approach for distributing state dollars to the public schools. The Legislature jettisoned the power equalization program that it had used for the prior 20 years and, in its place, established a foundation program as the basic mechanism for distributing State school aid.

Local

- Despite considerable news reports to the contrary, there continues to be school property taxes in Michigan. In prior years, under a power equalizing program, local property taxes provided almost two-thirds of the revenue needed to fund the public schools. Furthermore, these taxes were levied only at the local level; the state did not levy property taxes for school purposes. Under the finance reform measures adopted by the Legislature in December 1993, three important changes have come about.

  - First, while not eliminated, property taxes for school purposes have been lowered substantially. Beginning in 1994-95, property tax revenues will provide only about one-third of K-12 operating funds as compared to almost two-thirds in 1993-94 and immediately prior years.

  - Second, rather than millage rates being applied uniformly on all property, different rates are now applied to homestead (owner-occupied residences and qualified agricultural property) and non-homestead property (all else). Homestead property is taxed at six mills, non-homestead property at 24 mills under the new approach.

  - Third, the state now levies a uniform school tax of six mills on all property — both homestead and non-homestead. The revenue is deposited in the State School Aid Fund and used as a part of state aid under the new foundation approach.

- Local districts are expected to levy 18 mills, *with voter approval*, on all non-homestead property. These proceeds constitute the local district's contribution under the new foundation approach. For some districts there will be operational millage in excess of the six mill state levy on all property and the local 18 mills on non-homesteads. These levies include (1) mills levied as "hold harmless" mills, and (2) enhancement mills, both requiring voter approval. The "hold harmless" mills apply to districts whose 1994-95 foundation allowance is greater than $6,500. These mills are first assessed against homesteads up to the 18 mill level (or the 1993-94 level, if less than 18) and then, if necessary to meet the permissible revenue target, against all property. Voters also may approve a limited-term district levy of local "enhancement" mills, at a rate of up to three mills annually, until the 1997-98 school year.

- The Michigan Legislature, in its' school finance reform package, also reduced substantially the number of separate categorical programs it had separately funded in prior years. Some 31 categoricals were dropped from the 1994-95 rolls. In addition, local districts are now fully responsible for contributions to the Teachers Retirement Fund and FICA payments. These payments in past years were made directly by the state; beginning in 1994-95, the state's contribution is included in the local districts' foundation allowances.

- There are several revenue limitations in the new school finance arrangements. First, the constitutional amendment approved by the voters contains a "super-majority" requirement (three-fourths vote by each house) to change the 18 mill local rate on non-homestead property and the six mill state rate on all property. A second revenue limitation is the automatic reduction in state-aid payments to districts whose combined state-and-local revenue, beginning in a subsequent year, exceeds the ratio of the district's foundation allowance to the statewide basic allowance set in 1994-95. Third, there are dollar-increase limitations on combined state-and-local revenue growth; the "hold harmless" millage rate would be reduced if local state equalized valuation growth resulted in excess per pupil revenue gain. Finally, there is a cap on annual increases in the assessed value of real property. Beginning with the 1995 tax year, annual increases in the assessed values of individual parcels of property are limited to five percent or the rate of inflation, whichever is less. On resale, the property is reassessed at 50 percent of market value.

- While now somewhat moot, there are two prior constitutional limits on local property taxation. The first places a limit of 15 mills (or 18 mills if approved by a vote of the people) on the sum of school district, township, and county tax rates not needing voter approval. As a consequence of the reforms, the school district portion is no longer effective. The second places a limit of 50 mills on the total tax levy, including voted millage above the 15 or 18 mill limit. Debt retirement is excluded from the both limitations, as are millages levied by cities, villages, and a number of charter units. Hence, it may be somewhat misleading to refer to 50 mills as a limit. The average millage statewide has exceeded 50 mills in every year since 1973 and, even with the finance reforms, is still likely to exceed 50 mills in a great many jurisdictions.

- The state has 524 K-12 districts, plus 36 non-K-12 districts, for a total of 560 local school districts. In addition, 57 intermediate school districts provide a range of programs and services to the 560 local districts. All 617 districts are fiscally independent.

Funding Summary, 1994-95[1]

Total State School Aid (All Programs)		$8,299 million
Grants in aid	8,299 million	
Teachers retirement contributions	(included in grants in aid)	
FICA	(included in grants in aid)	
Total Local School Tax Revenue		$2,053 million
Property tax revenue	2,053 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$10,352 million
State Financed Property Tax Credits		
Attributable to School Taxes (circuit breaker)[2]	$103 million	

[1] The dollar figures in the funding summary are appropriated amounts. The actual expenditure amounts are not yet available.

[2] This credit may be viewed as shifting costs from the local to the state level, but it does not represent an additional source of local school revenue beyond that provided by the property tax. This is an estimated amount.

II. THE BASIC SUPPORT PROGRAM

Foundation Program

Funding in 1994-95: $7,245 million (87.3% of total state school aid).

Nature of Program: Foundation allowance (Act 94, Public Acts of 1979 as amended) (Article 2, Sec. 20).

Allocation Units: Pupils. A blended count, i.e., the average of two count days, one in February of the prior school year and the other in October of the current school year.

Local Fiscal Capacity: Equalized assessed valuation of non-homestead property for base millage (18). For "hold harmless" millage, mills are first assessed against equalized assessed valuation of homesteads up to the 18 mill level (or the 1993-94 level, if less than 18) and then, if necessary to meet the permissible revenue target, against all property. "Enhancement" mills (up to 3) are levied against equalized assessed valuation of all property.

How Formula Operates: The basic concept undergirding Michigan's new foundation program is that the state will guarantee each district a basic level of funding per pupil provided the district levies a local voter-approved property tax at a millage rate set by the Legislature. In theory, for 1994-95, the basic level of funding per pupil, known as the *basic foundation allowance*, is set at $5,000. The millage rate required of the local district is 18 voter-approved mills on non-homestead property (as noted above, the state levies an additional six mills on both non-homestead and homestead property). We say in theory, because all districts do not receive the *basic foundation allowance* of $5,000 per pupil in 1994-95 but rather an amount, called the *district's foundation allowance*, varying between $4,200 and $6,660. Furthermore, some district's receive more than $6,660 per pupil if their 1993-94 per pupil revenue was above $6,500 and their voters approve local millage in addition to the 18 required mills to provide the supplement. These variations in 1994-95 *district foundation allowances* are due to three decisions made by the Legislature.

- First, rather than move all districts in which the 1993-94 per pupil revenues were under $5,000 up to $5,000 immediately, the Legislature chose to move these districts up gradually. Districts below $4,200 per pupil in 1993-94 are raised to $4,200 per pupil in 1994-95, or by $250 per pupil, whichever is greater.

- Second, the Legislature chose not to bring all remaining districts up, or down, to a $5,000 per pupil starting point in 1994-95. Rather, it chose to use each individual district's 1993-94 revenue per pupil level as the starting point and increase that level on a sliding scale. The district in which the 1993-94 revenue per pupil level was closer to $4,200 receives a larger increase for 1994-95 than the district in which the 1993-94 per pupil level was closer to $6,500.

- Third, the Legislature chose not to "level down" but rather to "hold harmless" those districts in which 1993-94 per pupil revenue levels exceeded $6,500, as long as voters in those districts are willing to tax themselves at a rate in addition to the required 18 mill rate.

The $5,000 per pupil *basic foundation allowance* for 1994-95 is expected to increase annually as a consequence of growth in the earmarked revenues going into the School Aid Fund. Thus, in 1995-96 the *basic foundation allowance* should increase to a level somewhat above $5,000 per pupil, and further annual increases are to be expected in subsequent years. The actual dollar increase from year to year in the *basic foundation allowance* is determined by multiplying the prior year's *basic foundation allowance* by a factor called the *final index*. Put simply, the increases for 1995-96 and subsequent years are indexed to the annual percentage increases in the School Aid Fund, adjusted for changes in enrollment.

In 1995-96 and beyond, all districts above the *basic foundation allowance* will receive annual dollar per-pupil increases equal to the annual dollar per-pupil increases in *the basic foundation allowance*. Districts below the *basic foundation allowance* will experience annual per-pupil increases at an accelerated rate until they reach the level of the basic foundation allowance, at which point their annual per-pupil increases also will equal the annual dollar per pupil increases in *the basic foundation allowance*.

State Share: The state share of a district's foundation allowance is based on the difference between the district's 1994-95 foundation allowance or $6,500, whichever is less, and the revenue from the district's base millage (18 mills) on non-homestead property. In subsequent years, it is based on the difference between the district's foundation allowance and the revenue from the district's base millage.

Local Share: The local district share of the foundation allowance is the yield from its operating levy, calculated by multiplying the district's state equalized valuation of non-homestead property per-pupil (plus homestead property per pupil for "hold harmless" districts) by its operating millage rate.

Weighting Procedures: None.

Adjustments for Special Factors: One of six new categorical grants adopted provides some $230 million in additional funds to school districts that have a high incidence of children coming from poverty circumstances. This is accomplished by adding 11.5 percent (a 1.115 per pupil weighting) to the foundation allowance of those school districts that are eligible. Eligibility is determined on the basis of numbers of pupils receiving free lunches and is limited to districts with 1993-94 per pupil revenue under $6,500.

Aid Distribution Schedule: The State disburses state aid payments in nine equal portions on the 20th of each month beginning in October and running through June.

Districts Off Formula: As a consequence of the 1994 reforms, no Michigan districts are off formula. All districts receive some portion of their foundation allowance from the state.

III. TRANSPORTATION

Funding in 1994-95: $27 million (less than 1.0% of total state school aid) for special education transportation, bus driver safety instruction, and auxiliary services transportation.

Description: Beginning in 1994-95, regular education transportation is no longer a separate categorical but rather assumed in the district foundation allowance. Three transportation categoricals remain. First, $25.4 million are provided for specialized transportation services to local and intermediate districts that receive added cost reimbursement under the special education categorical (Article 5, Secs. 52 & 58). Payments are based on a calculated allowance for each vehicle used for transportation, with seven factors entering into the calculation. Second, $1.5 million are available to intermediate school districts and other training agencies as reimbursement for expenses incurred in the training of school bus drivers (Article 7, Sec. 74). Third, $125,000 are available to reimburse local districts for the reasonable costs of the nonspecial education auxiliary services transportation, i.e., for non-public school pupils (Article 7, Sec. 75).

State and Local Shares: Under the formula, the state is to pay the full cost for special education transportation; for sections 74 full reimbursement also is provided; and for section 75 the state pays all reasonable costs. However, in 1993-94, reimbursement was prorated at .355 of claims.

Extent of Participation: In 1994-95, 357 local districts and 43 intermediate districts participate in the special education transportation categorical; 425 local districts and 4 intermediate districts participate in bus driver safety instruction.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

State school aid is *not* provided for capital outlay financing.

Local Capital Project Financing

Capital outlay financing needs of local districts can be met from (1) cash reserves, (2) building and site sinking funds, and (3) the sale of bonds. However, under the provisions of Article IX, Section 16, of the Michigan Constitution, a school district may qualify its bonds under statutory provisions, set the debt retirement at seven mills, and borrow from the State up to 90 percent of the remaining funds needed to meet the annual principal and interest payments on the bonds.

Cash Reserves. Minor capital outlay needs can be financed from (1) unencumbered funds in an existing building and site fund, (2) federal assistance under P.L 815 if the district qualifies, (3) proceeds from the sale of buildings and/or land, (4) diversion of up to five percent of annual state aid for operation, and (5) monetary gifts.

Building and Site Sinking Funds. A local school district, by an affirmative vote of its electors, can establish a building and site sinking fund of not more than five mills for 20 years. The funds can be used only for capital outlay purposes.

Bonds. A local school board by resolution, and without a vote of the electorate, may issue bonds that, together with the district's outstanding bonded indebtedness, do not exceed five percent of the district's state equalized valuation. However, these bonds must be retired from existing tax revenues. Unlimited *unqualified* bonds, with a debt-to-valuation ratio of 15 percent, may be voted for up to 30 years by the electorate. Unlimited *qualified* bonds, approved by the Superintendent of Public Instruction, may be issued for up to 30 years upon voter approval. Qualified bonds are guaranteed 100 percent by the State. However, bonds for an asset with a useful life of less than 30 years may not be issued for a term that is longer than the life of the asset. The local board has the authority to set annually the necessary tax rate (not to exceed 13 mills) for debt retirement. However, the local board has the option of setting the basic tax rate at seven mills and borrowing 90 percent of the remaining funds needed to meet the annual payment from the Michigan School Bond Loan Program. In 1993-94,45 local districts were participating in the School Bond Loan Program, with seven repaying past loans and the remainder borrowing some $22.4 million in new money.

All bonds issued by school districts in Michigan are subject to the provisions of the Municipal Finance Act (Act 202, Public Acts of 1943, as amended). Approval must be obtained from the State Treasurer before bonds are sold.

Other Debt Service

In addition to the debt service provisions noted above for the sale of capital outlay bonds, the State of Michigan allows, upon voter approval, a local district to sell bonds for the elimination of operating deficits. Such millage was equalized prior to 1994-95, if the district was "in-formula," the state shared in meeting the annual principal and interest payments under the provisions of the general school aid formula. Beginning in 1994-95, the amount of equalization aid received in 1993-94 is built into the district's 1994-95 foundation allowance.

V. TEACHER RETIREMENT

Funding in 1994-95:	Retirement	(included in the foundation allowance)
	FICA	(included in the foundation allowance)

Description: Up through 1993-94, the state acted as employer for employee retirement benefits; the state appropriations were paid directly to the Michigan Public Employees Retirement System as the employer's contribution, in lieu of being incorporated into state aid payments paid directly to local districts. Beginning in 1994-95, as one consequence of the school finance reforms, the retirement payments previously made by the state are built into the foundation allowances of each local district and paid by the district directly to the retirement system. The system is a defined benefit pension system and has been noncontributory since July 1974; however, beginning in January 1987, the law was amended to include a four percent member contribution investment plan. There are no state appropriations related to the member investment plan.

The system's funding requirements are determined by the actuarial percentage of aggregate payroll sufficient to cover future pension obligations of current service and to provide for the unfunded portion of the annual pension allowances. The payments also provide for the health insurance costs of public school retirees, retiree's spouse, and dependents.

VI. SPECIAL EDUCATION

Funding in 1994-95: $274 million (3.3% of total state school aid).

Description: There are three separate programs for special education (Article 5, Secs. 51, 51.5 & 56). The first, funded at $185.4 million, of which $64.0 million are federal funds, reimburses local and intermediate districts on an "added cost" basis for special education programs, services, and personnel. The second, at $58 million, reimburses intermediate school districts for special education students counted in membership in the intermediate rather than the local district. The third, at $30.7 million, equalizes intermediate district millages levied for special education purposes.

State and Local Shares: Under the first program, the state reimburses local and intermediate districts for 75 percent of the "added costs" of special education programs and services; 100 percent of "added costs" are reimbursed for certain residential programs. Total state payments cannot exceed the appropriation level.

Under the second program, for each pupil, the intermediate district receives the intermediate district weighted average allocation. This figure is defined as 103 percent of the weighted average gross membership allowance for 1993-94. The intermediate district receives an amount equal to the local's share of the resulting gross allowance.

Under the third program, a state equalized valuation per-pupil is computed for the intermediate district by dividing the sum of the 1993-94 state equalized valuations of all its constituent districts by the total enrollment of all its districts; the resulting state equalized valuation per pupil is subtracted from $89,000 and the difference is multiplied by the special education millage levied in 1993-94; the product, if a positive number, is the amount received per pupil by the intermediate district.

The district assumes the remaining costs under all three programs.

Extent of Participation: First program, 524 local districts and all 57 intermediate districts; second program, all 57 intermediate districts; and third program, 34 intermediate districts.

VII. COMPENSATORY EDUCATION

At-Risk Program

Funding in 1993-94: $230 million (less than 2.8% of total state school aid).

Description: Funds are provided to districts that have a large number of at-risk pupils in grades K-12 (Article 3, Sec. 31a).

State and Local Shares: The state's share is determined by adding 11.5 percent (a 1.115 per pupil weighting) to the foundation allowance of those school districts that are eligible. Eligibility is determined by the number of pupils in the district who meet the income eligibility criteria for free lunch and is limited to districts in which the 1993-94 base revenue per pupil was less than $6,500. The funds must be used to provide instructional programs and direct non-instructional services including medical and counseling services for at-risk pupils. The target population for these services consists of pupils meeting at least two of the "at risk" criteria enumerated in the legislation as well as pupils who fail to secure a satisfactory score on statewide assessment tests.

The per-pupil dollar figures for districts will range from $483 to $747 (11.5% of $4,200 to 11.5% of $6,499) for each eligible pupil for 1994-95. Total state payments cannot exceed the appropriation level. The local district assumes the remaining costs.

Extent of Participation: 490 local districts.

Early Childhood Compensatory Education

Funding in 1994-95: $42.6 million (less than 1.0% of total state school aid).

Description: School districts operating comprehensive compensatory education programs for educationally disadvantaged four-year-olds are eligible to receive funds (Article 3, Sec. 36-39).

State and Local Shares: The number of eligible four-year-old children in a district is calculated by taking one-half of the percentage of K-8 pupils in the district eligible for free lunch and multiplying this number by the average kindergarten enrollment in the prior two years. This number, in turn, is multiplied by $3,000 and the funds are allocated among districts in decreasing order of concentration of eligible children until the funds are exhausted. The district is expected to use the state funds in conjunction with whatever federal funds may be available under Title 1 and/or Head Start; the district then assumes the remaining costs.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $5 million (less than 1.0% of total state aid).

Description: There are three programs that support Gifted and Talented Education (Article 5, Sec. 57). The first ($0.6 million) is targeted for intermediate school districts that provide support for teachers in gifted and talented programs. A second program ($0.4 million) is targeted to help intermediate districts defray the costs of summer institutes held in cooperation with local colleges and universities. A third program ($4 million) is targeted for development and operation of comprehensive programs by local districts or consortia of districts.

State and Local Shares: For the first program, the state reimburses the intermediate district up to 75 percent of the actual salary cost of a support services teacher, not to exceed $25,000, and up to $4,000 for approved program expenditures.

For the second program, the state supports a percentage of the cost of the summer institutes under a discretionary grant program established by the state agency.

For the third program, the district, or consortium of districts, may receive up to $50 per-pupil for up to five percent of its total K-12 membership with a minimum grant of $3,000.

Total state payments cannot exceed the appropriation levels for any of the three programs. The district, or consortium of districts, assumes the remaining costs under all three programs.

Extent of Participation: 57 intermediate districts participate in the first program; there are ten sites for the summer institutes and for the comprehensive program there are 615 sites including 20 intermediate districts and 60 consortia of districts.

IX. BILINGUAL EDUCATION

Funding in 1994-95: $4.2 million (less than 1.0% of total state school aid).

Description: Aid is provided to local and intermediate districts offering bilingual instruction programs in speaking, reading, writing, or comprehension for pupils of limited English-speaking ability (Article 4, Sec. 41).

State and Local Shares: The state's share is the amount available per pupil multiplied by the number of pupils of limited English-speaking ability participating in the district's approved program. The amount available per pupil is calculated by dividing the total state appropriation by the total number of eligible pupils enrolled in all approved programs. The district assumes the remaining costs.

Extent of Participation: 90 local districts and 5 intermediate districts.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $35.8 million (less than 1.0% of total state school aid).

Description: There are two state programs for vocational education (Article 6, Secs. 61-65). Basic support on an "added cost" reimbursement basis is provided to districts and vocational-technical centers that offer secondary vocational-technical programs ($28.5 million). A second program ($7.2 million) equalizes district millages levied for area vocational-technical education programs

State and Local Shares: For the first program, the state's share is calculated on an "added cost" basis; a district or vocational-technical center may receive reimbursement of up to 75 percent of the "added costs" of the approved program. Total state payments cannot exceed the appropriation level.

For the second program, a state equalized valuation per pupil is computed for the intermediate district or the area vocational-technical education program in the same manner as is done for special education millage reimbursement (see above); this figure is subtracted from $89,000 and the difference is multiplied by the vocational education millage rate levied in 1993-94; the product, if a positive number, is the amount per-pupil received by the intermediate district or the area vocation-technical education program.

Extent of Participation: 323 local districts and 30 intermediate districts participate in the first program, and 19 intermediate districts participate in the second program.

Intermediate School Districts

Funding in 1994-95: $29.7 million (less than 1.0 % of total state school aid).

Description: There are two separate appropriations for intermediate school districts. Under the first, $23 million are provided to equalize millages levied by intermediate school districts for general operating purposes. There also is a small allotment provided to intermediate districts that consolidate (Article 8, Sec. 81). Under the second, $6.8 million in block grant funding is provided as a replacement for what formerly was separate categorical funding of the following programs: school district consolidation, technologically enhanced curricula choices, dropout prevention, alternative juvenile rehabilitation, media centers, ISD schools of choice, school age parents, and school improvement grants (Article 8, Sec 81.7).

State and Local Shares: The state's share of millage equalization is computed through a general equalization formula that guarantees up to a four percent increase and guarantees that no intermediate district will receive less state aid per pupil than it did in the prior year. For reorganized intermediate districts, the district receives a payment of $3,500 for each former district included in the new district.

For the block grant funding, the appropriation is distributed on the same basis as employed under former sections of the school aid act, and distributions are prorated as necessary.

Extent of Participation: All 57 intermediate districts received payment under the general equalization formula. No districts shared in the reorganization allocation. All 57 intermediate districts received a portion of the block grant funding.

Professional Development

Funding in 1994-95: $10 million (less than 1.0% of total state school aid).

Description: Funding for professional development received better than a five-fold increase for 1994-95, from the prior year's appropriation of $1.9 million to the current year appropriation of $10 million. The funds are to be used to provide professional development programs for administrators and teachers, a biennial education policy institute, a statewide academy for school leadership, community leadership development, promotion of high educational standards, and sabbatical leaves for master teachers who aid in professional development (Article 9, Sec. 95).

State and Local Shares: $2 million is targeted for the Department of Education for statewide programs; $1.5 million to intermediate school districts on an equal amount per pupil, and $6.5 million to local districts on an equal per-pupil basis. The local and intermediate districts assume any remaining costs of programs.

Extent of Participation: 560 local districts will receive funds along with 57 intermediate school districts.

Court Ordered Desegregation

Funding in 1994-95: $39 million (less than 1.0% of total state school aid).

Description: The funds provide the state's share of desegregation costs mandated by the federal courts in *Berry* v. *School District of the City of Benton Harbor* (Article 14, Sec. 145).

State and Local Shares: By the ruling of the federal district court, the state is obliged to provide continuing fiscal support to further desegregation activities in the affected districts. The districts assume the remaining costs.

Extent of Participation: The desegregation program involves three local school districts: Benton Harbor and its neighboring districts of Coloma and Eau Claire.

Court-Placed Children

Funding in 1994-95: $5.8 million (less than 1.0% of total state school aid).

Description: Funding is provided for local or intermediate districts providing instruction to pupils under court jurisdiction who are placed in a juvenile detention facility or child caring institution licensed to provide an on-grounds education program.

State and Local Shares: Pupils are counted as 1.5 memberships in the district or intermediate district providing the instruction. The membership days attended are divided by the number of days in the school year, and the resultant figure is added to the district's membership for state aid purposes.

Extent of Participation: 323 local districts and15 intermediate districts.

Mathematics and Science Centers

Funding in 1994-95: $6.2 million (less than 1.0% of total state school aid).

Description: The funds are provided to implement the comprehensive master plan for mathematics and science centers developed by the department of education and approved by the state board. The mathematics and science centers are to provide six basic services: pupil services, curriculum support, community involvement measures, professional development, resource clearing-house services, and leadership.

State and Local Shares: The program is a discretionary one and applications are submitted to the department of education. The 1994-95 appropriation provides for the continuation funding of all previously established mathematics and science centers plus five other centers identified in the master plan. Provision is also made for the establishment of satellites in areas that cannot support a center and are a considerable distance from existing centers.

Extent of Participation: 25 centers have been established, three at local districts, 17 at intermediate districts, four at universities, and one statewide project at Michigan State University.

Adult Education

Funding in 1994-95: $257 million (3% of total state school aid).

Description: There are three programs that support adult education (Article 10, Secs. 107a, 107b, 107e). The first provides $40 million for economic development job training, including existing social services/vocational job club training and placement programs. The second makes available $32 million for grants to provide a JOBS grant program, which includes the education designed for gainful employment (EDGE) adult education program. The third allocates $185 million to local districts or consortia of local districts for adult basic education programs, adult high school completion programs, alternative adult education programs, and GED preparation programs.

State and Local Shares: The economic development job training program funds are allocated through a competitive application process, with applications submitted to the Governor's work force commission. Eligible applicants include local districts, intermediate districts, community colleges, public or private nonprofit colleges or universities, nonprofit organizations offering school-to-work transition and other related programs, licensed proprietary schools, service delivery areas licensed under the federal job training partnership act, and consortia of any of the above. The JOBS/EDGE grant program is a parallel discretionary grant program, with JOBS participants limited to recipients of aid to families with dependent children. Under the third program, the "regular" adult education program, payments not to exceed $5,500 are made for each full-time participant; payments are prorated as necessary.

Extent of Participation: 256 local districts participate under the third program.

Other Categorical Programs

In addition to the above categorical programs, the 1994-95 Michigan School Aid Act also provides $22 million to make up shortfalls in amounts of local school tax revenue captured by tax increment finance authorities, downtown development authorities, and local downtown development authorities (Article 1, Sec 11c). Another $0.1 million is appropriated for school district reorganization planning grants not to exceed $15,000 each (Article 2, Sec. 21d). The Detroit Compact receives a $0.5 million grant for a comprehensive school, business, government, and community partnership designed to improve the economic success of Detroit public school graduates (Article 14, Sec. 148). Finally, a $5 million grant is provided to the Michigan Partnership for the New Education to assist in the development and operation of a coordinated statewide educational innovation system.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None. A constitutional prohibition adopted in 1970 prohibits state aid to non-public schools (Article VIII, Sec. 2). See Section III — Transportation.

XII. EARLY CHILDHOOD EDUCATION

See Early Childhood Compensatory Education in Section VII.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax that funds schools. In 1994-95, it will generate an estimated $2,053 million. In 1993-94, the year immediately prior to school finance reform, it generated $6,175 million.

Under the Michigan Constitution, assessment ratios on all taxable property must be uniform throughout the state and must not exceed 50 percent of true cash value. A separate statute requires that the ratio of assessed value to true cash value equal 50 percent. The initial assessments are done by local assessors at the township, village, and city levels. The aggregate local unit assessments are adjusted or equalized at both the county and state levels and the resulting figures are termed *state equalized valuations*.

Compared to the nation, Michigan scores well in overall assessment practices. But there is still considerable variation in the quality of assessments among the 1,700 plus jurisdictions with assessment authority. In addition, there is considerable variation in assessment practices within the six separate classes of real property: agricultural, residential, commercial, industrial, timber cutover, and developmental. For example, accurate assessments of commercial and industrial property are much more difficult than accurate assessments of residential property.

Equalization studies are undertaken regularly by field staff of the State Tax Commission.

Property Tax "Circuit Breaker"

The State of Michigan addressed the problem of the regressivity of the property tax through the adoption in 1973 of the Michigan Homestead Property Tax Credit, the so-called "circuit breaker." Under the circuit breaker, a refundable state income tax credit is given to taxpayers who pay more than 3.5 percent of their household income in property taxes; for renters, 20 percent of their gross rent is considered to be property tax. The credit is equal to 60 percent of the difference between the property tax paid on the principal household residence and 3.5 percent of the total household income. There is a maximum credit of $1,200, a phasing-out of the credit for persons whose household income exceeds $73,650, and no credit for those whose household income is over $82,650.

Michigan's circuit breaker is one of the most generous in the nation. In 1993-94, it accounted for more than a $1 billion annual reduction in property taxes. However, with the overall reduction in property taxes under the school finance reforms, this figure is estimated to drop to $150 million in 1994-95; of this amount, it is estimated that $103 million will go to effectively reduce property taxes for school operations.

XIV. TAX AND SPENDING LIMITS

The 15-18 Mill Limit

The State of Michigan sets limits on the aggregate tax rates that can be levied on property. The Michigan Constitution (Article IX, Sec. 6) places a limit of 15 mills, or 18 mills in those counties where the voters have approved the higher limit, on the aggregate tax rate levied by school districts, townships, and counties. In those counties where the limit is 15 mills, a county allocation board divides up the 15 mill taxing authority. In those counties where the limit is 18 mills, the voters have approved a fixed division of the 18 mill taxing authority. In either case, prior to 1994-95, the local school district generally was granted between eight and 11 mills of this taxing authority, usually referred to as the district's "allocated millage." However, under the constitutional amendment adopted on March 15, 1994 as part of the school finance reforms, school districts no longer receive any "allocated millage." The 15 or 18 mill limit in each county is reduced by the number of mills formerly allocated to local school districts.

The 50 Mill Limit

These new limits, as was the case with the old limits, can be exceeded by a majority vote of the local taxpayers provided the total aggregate tax rate does not exceed 50 mills. However, the limits apply only to operating tax rates; taxes levied for debt retirement — for example, the retirement of school construction bonds — are exempted from this limitation. In addition, the 15-18 and 50 mill limits do not apply to cities, villages, or charter townships. Hence, it may be somewhat misleading to refer to 15-18 and 50 mills as limits. The *average* millage rate statewide for all purposes — schools, townships, counties, villages, cities, etc. — up to 1993-94 had exceeded 50 mills in every year since 1973. Even with the substantial reduction in school property taxes, this may still hold true in a number of locales.

The Headlee Amendment

In 1978, Michigan voters approved the so-called "Headlee Amendment," which added Sections 25-33 to Article IX of the Michigan Constitution. The amendment places an additional limit on local property taxation and constrains state government in certain of its taxation and allocation actions. The additional limit mandates that local property tax rates be rolled backed if the increases in tax revenues (other than from new construction) from one year to the next exceed the rate of inflation, as measured by the consumer price index. However, a majority of local voters can "override" the roll back and retain the existing millage rate. Constraints on state government include prohibiting state-mandated requirements for any new or expanded activities by local government without also providing full state financing for these activities and prohibiting reductions in the portion of state spending paid to local governments below 41.6 percent, the share in place at the time of the adoption of the amendment.

The 3/4 Requirement to Raise Tax Rates

The successful March 15, 1994, ballot issue also set a limit on increases in the six mill State school tax on all property and the 18 mill required local school tax on non-homestead property. These rates cannot be raised without a three-fourths favorable vote by both houses of the Legislature. (This limit does not apply to "hold harmless," nor to building and site and debt retirement mills.)

Reductions in State Aid Payments & Hold Harmless Millage Rates

Another revenue limitation imbedded in the 1994-95 state aid appropriations law is the automatic reduction in state-aid payments to districts whose combined state-and-local revenue, beginning in a subsequent year, exceeds the ratio of the district's foundation allowance to the statewide basic allowance set in 1994-95. There also are dollar-increase limitations on combined state-and-local revenue growth; the "hold harmless" millage rate would be reduced if local state equalized valuation growth resulted in excess per pupil revenue gain.

The Assessment Cap

The successful March 1994 ballot issue places a cap on annual increases in the assessed value of real property. Beginning with the 1995 tax year, annual increases in the assessed values of individual parcels of property are limited to five percent or the rate of inflation, whichever is less. On resale, the property is reassessed at 50 percent of market value.

Voter Approval of Bond Issues

A local school board by resolution, and without a vote of the electorate, may issue bonds that together with the district's outstanding bonded indebtedness do not exceed five percent of the district's state equalized valuation. However, these bonds must be retired from existing tax revenues. Unlimited *unqualified* bonds, with a debt to valuation ratio of 15 percent, may be voted for up to 30 years by the electorate. Unlimited *qualified* bonds, approved by the Superintendent of Public Instruction, may be issued for up to 30 years upon voter approval. However, bonds for an asset with a useful life of less than 30 years may not be issued for a term that is longer than the life of the asset. Qualified bonds are guaranteed 100 percent by the State. The local board has the authority to set annually the necessary tax rate (not to exceed 13 mills) for debt retirement. However, the local board has the option of setting the basic tax rate at seven mills and borrowing 90 percent of the remaining funds needed to meet the annual payment from the Michigan School Bond Loan Program.

Budget Deficits

Under Article 10, Section 102 of the State School Aid Act, a local or intermediate district is prohibited from adopting or operating under a deficit budget. Additionally, a district is prohibited from incurring an operating deficit in a fund during a school fiscal year. A district that has an existing deficit or incurs a deficit receives no further state aid until it submits to the state education agency for approval a budget for the current school fiscal year and a plan to eliminate the deficit no later than the end of the second school fiscal year after the deficit was incurred.

XV. EARMARKED STATE REVENUE

The following state revenue is earmarked for school aid:

Sales and Use Tax	$3,886 million
Six Mill Property Tax	1,075 million
Income Tax Earmarking	864 million
Tobacco Tax	380 million
Real Estate Transfer Tax	109 million

Interstate Phone Use	18 million
Liquor Excise	23 million
Industrial & Commercial Facilities	125 million
Lottery	457 million
Total earmarked revenue:	$6,937 million

Note that these revenues in 1994-95 were supplemented by appropriations of $1,362 million in other state funds including a $668 million appropriation from the state general fund.

XVI. SPECIAL TOPICS

Charter Schools

Governor John Engler, the Republican Senate, and a good many legislators of both parties viewed the introduction of a market-driven mechanism into public education as the *sine qua non* of any meaningful effort to improve the quality of public schooling — a view supported by many in the business community. Thus, the authorization of charter public schools became the centerpiece of the 1994 reforms adopted by the Legislature, at least as far as the issue of school quality was concerned. In taking this action, Michigan became the eighth state to adopt legislation authorizing the establishment of charter schools within the public sector.

Funding for the charter public schools, or public school academies as they are termed in the legislation, is provided in 1994-95 through a state foundation allowance of $5,500 per pupil or the foundation allowance of the district in which the school is located — whichever is less. The charter schools also are eligible for certain state and federal categorical monies.

Michigan's charter school legislation is unique in two respects. First, the governing boards of the State's 13 public colleges and universities can issue charters — in addition to the governing boards of local school districts, intermediate school districts, and community colleges. In the case of the schools chartered by the public colleges and universities, the faculty and staff need not come under existing collective negotiations arrangements. Nor are teachers in these schools required to meet certification requirements if they are tenured or tenure-stream faculty in the college or university. Second, there is no limit on the number of charters that can be issued. Indeed, Governor Engler talks of the creation of literally hundreds of charter schools. As he publicly stated, "With Charter Schools, I predict nothing less than a renaissance of public education in Michigan."

However, the charter school legislation ran into an immediate roadblock as the consequence of rulings in a lawsuit brought in the circuit court of Ingham County. In an initial ruling, the court ordered the suspension of payments to charter schools that had been approved for funding. In a later ruling, on November 1, 1994, the court found that the charter school legislation violated the state constitution on two counts: first, charter schools are not "public schools" as defined by Michigan law; and second, the legislation usurps the power of the state board of education to oversee and supervise public education in Michigan and places it in the hands of others. The decision is being appealed. Subsequently, prior to adjournment in late December 1994, the Legislature adopted new legislation to authorize the payments and amended the existing law in an attempt to correct the constitutional violations. The outcome of the appeal and the question of whether the amended legislation corrects the violations remain to be seen.

MINNESOTA

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I. GENERAL BACKGROUND

State

- The state share of state-local revenue for elementary and secondary education has remained fairly constant since 1984, averaging approximately 62 percent. This percentage includes tax credits, tax shift adjustments, and nondistrict aid (includes state agency appropriations, but excludes property tax refund program).
- The General Education Revenue Program replaced the Foundation Program beginning in 1988-89. All districts are provided equivalent revenue per pupil unit (adjusted for state-recognized cost factors) from a uniform level tax effort. In FY 1994, the General Education formula provided school districts with approximately 87 percent of their general fund revenues.
- State aid to school districts includes direct school aid, computed according to various education funding formulas (e.g., general education aid, categorical aids), and state-paid property tax relief (e.g., Homestead and Agricultural Credit Aid), which replaces a portion of the gross tax levy certified by local school boards. In addition to payments made by the state to school districts, homeowners, and renters receive property tax refunds.
- Beginning in FY 1993, state aid is provided to equalize a portion of the referendum levy and the debt service levy.
- The school finance system, especially provisions for referendum and debt service levies, was challenged recently in state district court; *Skeen et.al.* v. *State of Minnesota*. In August 1993, the Minnesota Supreme Court found for the state, reversing the 1991 trial court decision.

Local

- There were 395 fiscally independent school districts in 1993-94.
- Local revenues are derived almost exclusively from property taxes.
- In 1993-94, 395 public school districts were operating serving 800,000 pupils, and 550 nonpublic schools were operating serving 81,697 pupils. In addition, 590 pupils attended seven charter schools, and 7,671 pupils attended home schools.

- In 1993-94, school district revenue is estimated to average $5,112 per weighted average daily membership (WADM). This amount excludes nondistrict items, state agency appropriations, and the statutory operating debt levy, but includes the referendum levy.

Funding Summary 1993-94

Total State Education Aid		$2,540 million
State School Aid (District Revenue)	2,481 million	
Nondistrict Revenue	32 million	
State Education Agencies Funding[1]	27 million	
Property Tax Revenue (Gross Levy)		$2,000 million
Total Combined State and Local School Revenue		$4,540 million
State Financed Property Tax Credits Attributable to School Taxes[2] (included in Gross Levy)	$207.8 million	

[1] Amount includes appropriations for State Agencies (Minnesota Department of Education, Faribault Academies, and The Center for Arts Education.)

[2] Amount includes Homestead and Agricultural Credit Aid (HACA), Enterprise Zone Credit, Disaster Credit, Attached Machinery Aid, and Agricultural Preserve Credit.

Note: Aid percentages are based on school district revenue totals; levy percentages are based on total gross levy.

II. THE BASIC SUPPORT PROGRAM

General Education Revenue Program

Funding in 1993-94: $1,892.2 million State Aid (76.3% of total state school aid).
$1,279.4 million Gross Levy (63.9% of total gross levy).
$3,171.6 million Total Funding (70.1% of total combined funding)

Nature of Program: Foundation program, known in Minnesota as General Education Revenue program (Minnesota Statutes, Chapter 124A).

Allocation Units: Pupils. Current year weighted average daily membership (WADM), computed using data from all days in the school year. Revenue is allocated initially based on school district estimates of pupil units, and is adjusted at year end using actual data. School districts may submit updated estimates at any time during the school year.

Local Fiscal Capacity: Equalized assessed property valuation, known in Minnesota as Adjusted Net Tax Capacity, or ANTC (M.S. 124A.02, Subd. 3a). A school district's ANTC equals the quotient obtained by dividing the district's net tax capacity (NTC) by the district's sales ratio. NTC for each parcel of property equals the product of the market value, as estimated by the local assessor, multiplied by a statutory percentage. The percentage of market value varies with the class and value of property. For example, for residential homesteads, the percentage is one percent for the first $72,000 of market value, and two percent for value exceeding $72,000. For commercial and industrial property, the percentage is three percent for the first $100,000 of market value, and 4.7 percent for value exceeding $100,000. Sales ratio studies are conducted annually by the state Revenue Department to compare the actual selling price of property with the values estimated by the local assessor. The state average sales ratio for 1993-94 was 92 percent.

How Formula Operates: A school district's general education revenue equals the sum of the following revenue components: (1) basic revenue, (2) compensatory revenue, (3) training and experience revenue, (4) sparsity revenue, (5) supplemental revenue, (6) excess fund balance reduction, and (7) referendum revenue.

Basic revenue. A district's basic revenue equals the "formula allowance" of $3,050 times the district's WADM for the current school year:

Basic Revenue = $3,050 x 1993-94 WADM

Total funding — $2,695 million; 395 school districts.

Compensatory revenue. A district's compensatory revenue equals the "formula allowance" of $3,050 times the district's AFDC pupil units:

Compensatory Revenue = $3,050 x AFDC Pupil Units

If the October 1992 AFDC count exceeds the October 1991 count and the October 1991 count exceeds the October 1990 count, the computations are based on the October 1992 count; otherwise, the computations are done using the average of the October 1991 and October 1992 counts.

A new method of computing AFDC pupil units is being phased in over four years: in 1993-94, the AFDC pupil units equal 50 percent of the units computed using the old method, plus 50 percent of the units computed using the new method. The new method provides AFDC pupil units to all districts with AFDC students, while the old method provides these units only to districts where the ratio of AFDC students to WADM is at least six percent. In both methods, the number of AFDC pupil units per AFDC student increases as the AFDC concentration increases. Under the old method, the number of AFDC pupil units per AFDC student varies from 0.1 for districts with concentrations of 6 - 6.99 percent to 0.60 for districts with concentrations of 11 percent or more. Under the new method, the number of AFDC pupil units per AFDC student gradually increases from zero to 0.65 as the ratio of AFDC students to district average daily membership (ADM) increases from zero to 11.5 percent.

Total funding — $94 million; 391 school districts.

Training and Experience revenue. A new formula for training and experience revenue is also being phased in over four years. In 1993-94, a district's training and experience revenue equals 50 percent of the amount computed using the old formula plus 50 percent of the amount computed using the new formula. The old and new formulas are as follows:

Old Formula: T&E Revenue = (Old T&E Index - 1.6) x $700 x 1993-94 WADM

New Formula: T&E Revenue = (New T&E Index - 0.8) x $575 x 1993-94 WADM

The old formula provided training and experience revenue only to districts with training and experience indexes well above the state average, while the new formula provides revenue to nearly all school districts. The T & E index is computed differently for the old and new formulas. In the old formula, the T & E index ranges from 1.0 for a teacher with a B.A. degree and no experience to 2.11 for a teacher with a Ph.D. degree and at least 20 years of experience. In the new formula, a value of 1.0 represents the state average level of training and experience; the index ranges from a low of .6287 for a teacher with a B.A. degree and no experience to 1.2450 for a teacher with an M.A. degree plus 30 credits and at least 20 years of experience.

Total funding — $58 million; 393 school districts.

Sparsity revenue. Sparsity revenue is provided to districts with small, geographically isolated elementary or secondary schools. To qualify, a secondary school must have fewer than 400 students in grades 7-12, and an "isolation index" of more than 23. The isolation index is a function of the distance to the nearest secondary school and the school's attendance area. An elementary school must average fewer than 20 students per grade level and be 19 miles or more from the nearest elementary school to qualify for this revenue.

Secondary Sparsity Revenue = $3,050 x Secondary ADM
x (400 - Sec. ADM)/(400 + Sec. ADM)
x Lesser of: 1.0 or [Isolation index - 23)/10].

Elementary Sparsity Revenue = $3,050 x Elementary ADM
x (140 - Elem. ADM)/(140+ Elem. ADM)
for qualifying elementary schools.

Total funding — $6 million; 53 school districts.

Supplemental revenue. Supplemental revenue is a grandfather provision designed to ensure that all school districts would receive an increase in revenue per WADM in the transition from the formulas in effect for 1987-88 to the new general education revenue formula in 1988-89. For 1993-94, a district's supplemental revenue equals the product of the district's 1992-93 supplemental revenue per WADM times the district's 1993-94 WADM:

Supplemental Revenue = (1992-93 Supplemental Revenue / 1992-93 WADM)
x 1993-94 WADM.

Beginning in 1994-95, supplemental revenue per WADM is reduced by 100 percent of the increase in the "formula allowance" over the 1993-94 level, plus 25 percent of the increase in the compensatory and training and experience allowances over the 1993-94 levels.

Total funding — $15 million; 130 school districts.

Excess fund balance reduction. General education revenue is reduced for districts with excessive unreserved operating fund balances:

Revenue Reduction = Lesser of: (a) 6/30/93 unreserved operating fund balance in excess of [$600 x 1992-93 fund balance pupil units], or
(b) $150 x 1993-94 WADM.

Fund balance pupil units = WADM plus net change in pupil units under enrollment options programs.

Beginning in 1994-95, the fund balance limit is increased from $600 to $787.50 (25% of "formula allowance"), and the maximum reduction is increased from $150 to $250 per WADM.

Total fund balance reduction — $5 million; 67 school districts.

Referendum revenue. A school district may increase its general education revenue beyond the level otherwise provided in state law by obtaining approval of the voters in a referendum election. If a majority of those voting approve, the district may increase its general education revenue each year for the number of years specified on the ballot (not to exceed ten years) by the product of the approved revenue per WADM times the district's WADM for the current school year. Referendum authority approved before July 1991 is based on an approved tax rate times the district's tax capacity, unless converted to an allowance per pupil unit. Referendum revenue per WADM is limited to $915; however, school districts with a larger allowance in previous years are permitted to retain the higher amount. The revenue limit does not apply to school districts qualifying for sparsity revenue.

Beginning in 1994-95, the revenue limit is reduced from $915 to 25 percent of the formula allowance ($787.50). Referendum revenue per WADM is reduced by a portion of the increase in basic, compensatory, and T&E revenue allowances over the 1993-94 level.

Total funding — $308 million; 273 school districts.

In addition to the above components, general education revenue for 1993-94 includes $3 million for the shared time program and a negative $15 million adjustment for a change in the teacher retirement contribution rate.

State Share: The state share of the basic, compensatory, and sparsity revenue equals the total revenue for these components, minus the general education levy (30.7 percent of ANTC). For districts with an excess fund balance reduction, state aid and property tax levies are reduced in proportion to the initial aid and levy amounts. For districts receiving supplemental revenue, state aid and property tax levies are increased in proportion to the initial aid and levy amounts.

Training and experience revenue and referendum revenue are funded with a combination of state aid and local property tax levies. The state share of training and experience revenue is based on a guaranteed ANTC of $9,935 per WADM:

Local Share = Revenue x Lesser of 1.0 or (District ANTC/WADM)/$9,935.

State Share = Revenue Local Share.

The guaranteed ANTC of $9,935 per WADM is known as the "equalizing factor." Computed by dividing the formula allowance ($3,050) by the general education tax rate (0.307), it is the level of ANTC per WADM at which a district goes "off the formula" for basic general education aid. Levies equalized at this level are described as being "fully equalized" or equalized at 100 percent of the equalizing factor.

State equalization of referendum levies was initiated in 1992-93, and is phased in at two-thirds of the full computation in 1993-94. Equalization is limited to the first $305 per WADM of referendum revenue, and the guaranteed tax base is set at 50 percent of the equalizing factor, or $4,967.50.

The amounts received by a district through "county apportionment" (e.g., penalties on property taxes, fines) and taconite (iron ore) taxes are also deducted from state aid or local levies.

Beginning in 1994-95, referendum equalization is fully phased in. Equalization is limited to the first $315 per WADM of referendum revenue, and the guaranteed tax base is the same for referendum revenue and training and experience revenue ($9,026 per WADM).

Local Share: A district's maximum levy equals 30.7 percent of district ANTC, less any reduction for excess fund balance, plus the district's proportionate share of any supplemental revenue, plus the amount authorized for training and experience and referendum revenue.

If a district levies less than its maximum amount for the general education, supplemental, or training and experience programs, or less than its maximum amount for the equalized portion of its referendum revenue, the corresponding state aid is reduced proportionately. Few, if any, districts levy less than the maximum amount.

A district is "off the formula" if its basic, compensatory, and sparsity revenues total less than the amount raised by a tax levy of 30.7 percent of ANTC. These districts receive all of their general education revenue from the local levy, and categorical aids are reduced by the amount of the levy that exceeds the revenue.

Weighting Procedures:

Disabled prekindergarten and kindergarten ADM	1.0
Regular kindergarten ADM	0.515
Elementary ADM (grades 1-6)	1.03
Secondary ADM (grades 7-12)	1.30

Revenue from the increase in the kindergarten weight above 0.50 and the increase in the elementary weight above 1.00 is reserved for class size reduction.

Beginning in 1994-95, the kindergarten weight is increased to 0.53 and the elementary weight is increased to 1.06.

Adjustments for Special Factors: See above, and descriptions of categorical formulas below.

Aid Distribution Schedule: Eighty-five percent of state aid is paid on a current basis; a 15 percent final adjustment is paid by October 30 of the following fiscal year. Current aid payments for the operating funds are distributed twice each month based on a complex system taking into account average school district expenditure patterns and cumulative district receipts of state aids and local property tax revenues. Payments for the nonoperating funds are made in 12 equal monthly installments (Minnesota Statutes, Section 124.195).

Districts Off Formula: 4 of 395 (1%).

III. TRANSPORTATION

Funding in 1993-94: $128.5 million State Aid (5.1% of total state school aid).
$135.7 million Gross Levy (6.8% of total gross levy).

Description: A school district's transportation revenue equals the sum of the following revenue components: (1) regular transportation revenue, (2) nonregular transportation revenue, (3) excess transportation revenue, and (4) bus purchase levy (M.S. 124.223-M.S. 124.226).

1. *Regular transportation revenue.* A district's regular transportation revenue equals the product of the district's regular transportation allowance times the number of eligible students transported to and from school during the current school year in the regular, disabled, and desegregation transportation categories. The regular transportation allowance equals the average of the district's actual cost per student transported during the second prior school year and a formula-predicted cost per student transported (but not less than 80 percent nor more than 105 percent of actual cost), increased by 2.35 percent for inflation. The formula-predicted cost, derived using regression analysis, is a function of the number of students transported per square mile and the percent of students transported on contractor-owned vehicles. Eligible students for the regular transportation category include public and nonpublic elementary (K-6) students residing one mile or more from school and secondary (7-12) students residing two miles or more from school.

2. *Nonregular transportation revenue.* A district's nonregular transportation revenue equals the lesser of: (a) the district's actual cost in the current year for nonregular transportation services (e.g., disabled, desegregation, noon kindergarten, between buildings during the day); or (b) the product of the district's actual cost for nonregular transportation in the second prior year times 1.0435 times the ratio of the district's 1993-94 ADM to the district's 1991-92 ADM, minus (c) the amount of regular transportation funding provided for disabled and desegregation transportation. A district in which the nonregular transportation cost per ADM has increased by more than 30 percent over the last two years receives additional nonregular transportation revenue equal to 80 percent of the excess.

3. *Excess transportation revenue.* Excess transportation is to and from school transportation of secondary students residing between one and two miles from school and transportation of students residing less than one mile from school where hazardous walking conditions exist. A district's excess nonregular transportation revenue equals the product of (a) the lesser of the district's regular allowance or the district's actual excess transportation cost per weighted student transported, times (b) the number of weighted students transported in the excess category. Excess category students are weighted at 1.0 in densely populated areas; the weighting gradually decreases with decreasing density.

4. *Bus purchase levy.* School districts are allowed to levy the amount needed to eliminate any projected deficit in their reserved account for bus purchases.

State Share: State transportation aid equals the sum of the regular and nonregular transportation revenues minus the sum of the basic, contract, and nonregular levies. The aid is reduced proportionately if a district levies less than the maximum amount for basic or nonregular transportation.

Local Share: The basic transportation levy equals 2.13 percent of the district's ANTC. Districts that contract for transportation make a contract transportation levy equal to the portion of regular transportation revenue attributable to the contract factor used in computing the regular transportation allowance. School districts also levy for a portion of nonregular transportation revenue through an equalization formula, and levy for excess transportation and bus purchases.

Extent of Participation: All 394 districts receive transportation revenue; 11 percent were off the formula.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Funding in 1993-94: $118.0 million State Aid (4.8% of total state school aid).
$151.7 million Gross Levy (7.6% of total gross levy).

Description: State aid for capital outlay is provided through three programs: facilities, equipment, and health and safety. State law also authorizes school districts to make property tax levies for certain capital expenditures.

1. Facilities Revenue

(M.S. 124.243; 124.2442)

State Share: A district's maximum revenue equals $128 times the district's WADM for the current school year. A district's maximum state aid equals the maximum revenue minus the maximum levy. If a district levies less than the maximum amount, the state aid is reduced proportionately.

Local Share: A district's maximum levy equals the product of the maximum revenue times the lesser of one or the ratio of the district's ANTC per pupil unit to the general education equalizing factor ($9,935 for 1993-94).

$$\text{Levy} = \text{Facilities Revenue} \times \text{lesser of: } 1.0 \text{ or } \frac{(\text{ANTC}/1993\text{-}94\ \text{WADM})}{\$9{,}935}$$

Extent of Participation: All districts.

2. Equipment Aid and Levy

(M.S. 124.244)

State and Local Shares: A district's maximum revenue equals $63 times the district's WADM for the current school year. State and local share are computed in the same manner as for the facility aid and levy.

Extent of Participation: All districts.

3. Health and Safety Aid and Levy

(M.S. 124.83)

State Share: The amount of health and safety revenue in any given year is equal to the difference between the sum of the district's total health and safety expenditures approved since FY 1985 and the accumulated receipt of health and safety aid and local levy plus the amount of federal, state, or local receipts due the district from FY 1985 through the current fiscal year. State aid equals health and safety revenue minus health and safety levy.

Local Share: A district's maximum levy equals:

$$\text{Levy} = \text{Health \& Safety Revenue} \times \text{lesser of: } 1.0 \text{ or } \frac{(\text{ANTC}/1993\text{-}94\ \text{WADM})}{\$3{,}515}$$

If a district levies less than the maximum amount, the state aid is reduced proportionately.

Extent of Participation: 351 districts.

4. Disabled Access Levy
(M.S. 124.84)

When approved by the Commissioner of Education, a district may levy up to $300,000 over up to five years for costs of removing architectural barriers to disabled persons.

Extent of Participation: 200 districts.

5. Leased Facilities Levy
(M.S. 124.91)

When approved by the Commissioner of Education, a district may levy for the cost of leasing land or facilities for instructional purposes.

Extent of Participation: 113 districts.

6. Interactive Television Levy
(M.S. 124.91)

When approved by the Commissioner of Education, a district located outside of the Twin Cities metropolitan area may levy an amount equal to the greater of 0.5 percent of ANTC or $20,000 for construction, maintenance, and lease costs for an interactive TV system for instructional purposes.

Debt Service

Funding in 1993-94:	$14.0 million State Aid (less than 1.0% of total state aid). $187.7 million Gross Levy (9.4% of total gross levy).

Description: State aided programs for building construction and debt service include the equalized debt service levy, the maximum effort school loan program, and the secondary cooperative facilities grant program. State law also authorizes school districts to levy for a down payment on future construction costs, when approved by voter referendum.

1. Debt Service Revenue
(M.S. 124.95-M.S. 124.97)

State Share: Beginning in 1992-93, state aid is provided to equalize the portion of the debt service levy that exceeds ten percent of the district's ANTC at 50 percent of the equalizing factor (guaranteed tax base of $4,967.50 in ANTC per WADM for 1993-94). Levies eligible for debt service equalization include those for repayment of energy loans and for certain lease purchase payments as well as principal and interest on bonded debt. To be eligible for debt service equalization on bonds issued after July 1, 1992, the district must serve at least 66 students per grade in the grades to be served by the facility, or be eligible for sparsity revenue. Debt service equalization is phased in over a three year period; the aid for 1993-94 is two-thirds of the full amount computed under the formula.

Local Share: When approved by voter referendum, a school district may issue bonds to finance a construction project. The district then can levy for the amounts needed to pay the principal and interest due on the bonds, less the amount of debt service equalization aid received.

Extent of Participation: 113 districts.

2. Maximum Effort School Aid
(M.S. 124.36-124.477)

State Share: Districts with low property wealth may find it difficult to finance construction projects through conventional bond sales. Under this program, the state borrows money through the sales of bonds, and lends it to qualifying districts on favorable terms. Two types of loans are available: Capital loans for new construction projects, and debt service loans.

Local Share: Each district having an outstanding capital loan or debt service loan must levy the greater of the maximum effort debt service levy or the required debt service levy less any reduction for a debt service loan. The maximum effort debt service levy is equal to 20 percent of the district's ANTC for districts receiving capital and debt service loans after January 1, 1990 (lower rates apply to districts that received loans earlier). Loans are repaid when the proceeds from the maximum effort levy exceed the required debt service levy.

Extent of Participation: 20 districts with capital loans, and 15 districts with debt service loans.

3. Cooperative Secondary Facility Grants

Funds are provided through the state bonding authority. This program provides incentives for three or more school districts to cooperatively improve existing, acquire, or build new secondary school facilities; to promote the development of secondary schools in Greater Minnesota that will provide more equitable and quality programs and services that meet and exceed State Board of Education and local requirements; to create cooperative school district organizations in Greater Minnesota that will remain more viable in terms of long-term operations; to improve/replace rural secondary school facilities that are outmoded for educational, health and safety, and operational purposes; and to accomplish all of the above in a cost-efficient manner.

The intent of this incentive grant program is to encourage smaller rural school districts with common needs to improve secondary school facilities, programs, and services through cooperative efforts.

The application is for an incentive grant in an amount not to exceed the lesser of $6 million or 75 percent of the approved construction costs of a cooperative secondary education facility. Grant applications are reviewed on a competitive basis by Minnesota Department of Education (MDE) staff. All requirements of the law, State Board of Education Rules, and the grant application must be met to qualify for grant award consideration by the Commissioner of Education.

4. Down Payment Levy
(M.S. 124.82)

State Share: None.

Local Share: When approved by a voter referendum, school districts may levy up to five years for the amount authorized for a down payment on future construction costs.

Extent of Participation: 1 district.

Local Capital Project Financing

Review and Comment for School District Construction
(M.S. 121.14-M.S. 124.1502)

Proposed school construction and remodeling projects with an estimated cost in excess of $400,000 per school site must be submitted to the Commissioner of Education for review and comment before holding a bond referendum or soliciting bids. The Commissioner may submit a positive, unfavorable, or negative review and comment on the project. If the review and comment is positive, the district may proceed with the construction according to the requirements of applicable laws; a simple majority vote is required in the bond election for approval. If the review and comment is unfavorable, the school board must reconsider the proposal; if it elects to proceed, a 60 percent positive vote is required in the bond election for approval. If the Commissioner submits a negative review and comment, the school board may appeal to the state board of education. If no appeal is made, or if the state board upholds the Commissioner's decision, the school board may not proceed with construction. At least 20 days, but not more than 60, days before a bond referendum or solicitation of bids for a project receiving a positive or unfavorable review and comment, the school board must publish the Commissioner's review and comment in the legal newspaper of the district.

For proposed school construction and remodeling projects with an estimated cost between $100,000 and $400,000, the school board must consult with the Commissioner of Education before proceeding with the project, but a formal review and comment is not required.

The Commissioner of Education and the State Fire Marshal must develop a plan for inspection of all public school facilities used for educational purposes once every three years, beginning in 1990-91. The Commissioner of Education may condemn school buildings and sites determined to be unfit or unsafe for that use.

Bond Referendum Procedures

(M.S. 124.2455)

In general, a bond referendum must be held to authorize the issuance of bonds for school construction or remodeling. If the district has received a positive review and comment, a simple majority of those voting in the election is required for passage. Proceedings for issuing bonds are initiated by a resolution of the school board, stating the amount proposed to be borrowed and the purpose for which the debt is to be incurred.

Before a district issues bonds, it must publish notice of the intended projects, the amount of the bond issue, and the total amount of district indebtedness.

A bond issue tentatively authorized by the board under this subdivision becomes finally authorized unless a petition signed by more than 15 percent of the registered voters of the school district is filed with the school board within 30 days of the board's adoption of a resolution stating the board's intention to issue bonds. The percentage is to be determined with reference to the number of registered voters in the school district on the last day before the petition is filed with the school board. The petition must call for a referendum on the question of whether to issue the bonds for the projects under this section. The approval of 50 percent plus one of those voting on the question is required to pass a referendum authorized by this section.

The bonds may be issued in a principal amount, that when combined with interest thereon, will be paid off with not more than 50 percent of current and anticipated revenue for capital facilities or a successor section for the current year plus projected revenue not greater than that of the current year for the next ten years. Once finally authorized, the district must set aside the lesser of the amount necessary to make the principal and interest payments or 50 percent of the current year's revenue for capital facilities under this section or a successor section each year in a separate account until all principal and interest on the bonds is paid. The district must annually transfer this amount from its capital fund to the debt redemption fund. The bonds must be paid off within ten years of issuance. The bonds must be issued in compliance with chapter 475, except as otherwise provided in this section.

Limit on Net Debt

(M.S. 475.53)

A school district may not incur net debt in excess of ten percent of the market value of all taxable property situated within its corporate limits.

V. TEACHER RETIREMENT

Prior to FY 1987, the state was responsible for paying employer retirement and social security contributions for teacher retirement association members paid from normal school operating funds. Beginning in FY 1987, school districts and cooperatives are responsible for paying all employer retirement and social security contributions. State categorical aid was provided for teacher retirement costs in FY 1987 and FY 1988. Beginning in FY 1989, categorical funding for teacher retirement was eliminated and included in the general education revenue program.

Teachers in most school districts are members of the state Teachers' Retirement Association (TRA); teachers in the Minneapolis, St. Paul, and Duluth school districts belong to separate teachers' retirement associations. Employer contributions for the statewide TRA program are 8.14 percent for the coordinated plan and 12.14 percent for the basic plan. Employee contributions for the statewide TRA program are 6.5 percent for the coordinated plan and 10.5 percent for the basic plan.

VI. SPECIAL EDUCATION

Special Education Aid and Levy

(M.S. 124.32-124.322)

Funding in 1993-94: $185.0 million State Aid (7.5% of total state school aid).
$98.8 million Gross Levy (4.9% of total gross levy).

Description: Special education aid includes separate appropriations for: (1) regular school year special education programs, (2) summer special education programs, (3) programs for special pupils, (4) home-based travel programs, and (5) residential programs. Most of the state aid is used to fund a portion of the salaries of essential personnel, including teachers and other staff providing direct services to students. Beginning in 1993-94, there is no aid for administrator salaries.

State Share: The state share includes the following:

1. *Salaries.* State aid equals 55.2 percent of salary expenditures for essential personnel, not to exceed $15,320 per FTE. Essential personnel may generate up to one FTE for the regular school year, and an additional fraction of an FTE for the summer program.

2. *Supplies and Equipment.* State aid equals 47 percent of the costs of special supplies and equipment, not to exceed an average of $47 per disabled pupil served.

3. *Contracted Services.* When districts choose to purchase services for pupils with handicaps from public and private agencies, the state aid equals 52 percent of the difference between the contracted cost and the general education revenue for the pupil.

4. *Home-Based Travel.* State aid equals 50 percent of the travel cost for home-based services to disabled children under 5 years of age and their families.

5. *Residential.* State aid equals 57 percent of the difference between the cost of serving disabled students in residential facilities during the prior year and the basic general education revenue earned by these students.

6. *Special Pupil.* State aid equals 100 percent of the cost of serving special pupils during the prior school year, minus the basic general education revenue and any other aid earned on behalf of the child. Special pupils are pupils temporarily placed in a state institution or residential facility for care and treatment, where the district of residence cannot be determined (e.g., parental rights terminated by court order or parent lives outside of the state).

7. *Special Education Levy Equalization Aid.* State aid is provided to equalize the special education levy, using an equalizing factor (guaranteed tax base) of $3,540 in ANTC per WADM. The equalization aid equals the difference between the special education levy equalization revenue and the special education levy, as described below.

Local Share: Special education levy equalization revenue equals the difference between (a) 68 percent of the salaries for essential special education, secondary vocational-disabled, and limited English proficiency (LEP) personnel providing direct services to students, and (b) the state aid paid for salaries of these personnel. The local share of this revenue is computed as follows:

Levy = Revenue x lesser of: 1.0 or (District ANTC/WADM)/$3,540

Extent of Participation: All Minnesota schools districts are required by state law to provide appropriate and necessary special education to handicapped children from birth to 22 years of age. Approximately 11 percent of the pupils in the state receive special education.

Secondary Vocational Education Aid for Children with a Disability
(M.S. 124.574; M.S. 124.321)

Funding in 1993-94: $12.1 million State Aid (less than 1% of total state school aid).

Description: This program funds a portion of the cost of secondary vocational education for children with a disability.

State Share: The state share includes the following:

1. *Salaries.* State aid equals 55.2 percent of salary expenditures for essential personnel, not to exceed $15,320 per FTE.
2. *Equipment.* State aid equals 47 percent of cost.
3. *Supplies.* State aid equals 47 percent of cost, not to exceed an average of $47 per disabled pupil served.
4. *Travel.* State aid equals 47 percent of cost for instructor travel between instructional sites.

Local Share: The difference between 68 percent of salary expenditures and the state aid for salaries is included in the special education levy equalization revenue, as described above.

Extent of Participation: 91 districts.

VII. COMPENSATORY EDUCATION

Compensatory education funding is included as a component of the general education revenue formula (see Section II above).

VIII. GIFTED AND TALENTED EDUCATION

Funding for gifted and talented programs is included in the basic general education revenue formula; there is no separate categorical aid.

IX. BILINGUAL EDUCATION

Limited English Proficiency
(M.S. 124.273; 126.261-.269; 124.321)

Funding in 1993-94: $5.8 million State Aid (less than 1% of total state school aid).

Description: Two program delivery designs are used to serve students with limited English proficiency (LEP) in Minnesota: English as a second language, and Bilingual Education.

State Share: A district's state aid equals the lesser of 55.2 percent of salary or $15,320 for each eligible full time equivalent (FTE) teacher. A district is eligible to receive funding for one FTE teacher for each 40 LEP students or a pro-rata portion of a FTE teacher for fewer than 40 students. Districts with 20 or fewer LEP pupils are eligible to receive funding for one-half FTE teacher.

Local Share: The difference between 68 percent of salary expenditures for eligible staff and the state aid for salaries is included in the special education levy equalization revenue, as described above.

Extent of Participation: 115 districts.

X. OTHER CATEGORICAL PROGRAMS

Assurance of Mastery

(M.S. 124.311; 126.67, Subd. 3a)

Funding in 1993-94: $12.4 million State Aid (less than 1% of total state school aid).

Description: This is an optional program for school districts to assure all students in Grades K-8 have an opportunity to learn and succeed in the general education program within the usual and customary classroom setting.

State Share: State provides matching funds to participating districts.

Local Share: If the district expends $22.50 per Grade K-8 WADM to employ staff to provide direct instructional services to eligible Grade K-8 pupils within the usual and customary classroom, the state will match the district effort. If the district effort is less than that amount, the state will match the lesser amount.

Extent of Participation: 393 districts.

Organization/Cooperation Programs

Funding in 1993-94:	$4.0 million State Aid (less than 1% of total state aid). $42.8 million Gross Levy (2.0% of total gross levy).

Description: There are five programs for increasing cooperation and coordination among school districts in Minnesota.

1. *Education Districts.* Used to increase cooperation and coordination between four or more districts (M.S. 122.91-122.96; 124.2721).

State Share: Each Education district may receive revenue up to $50 times the WADM of member school districts. State aid is equal to the total revenue minus the Education District levy.

Local Share: Levy authority is equal to the lesser or total revenue or 1.87 percent times the combined adjusted net tax capacity of all member districts. The levy is allocated to each school district proportionately based on its share of tax capacity, and the net property tax levy revenue is transferred to the Education District in June and November.

Extent of Participation: 33 Education Districts comprised of 254 member school districts.

2. *Secondary Vocational Cooperatives.* Two or more districts may enter into an agreement that entails greater cooperation and coordination to provide vocational and nonvocational programs (M.S. 123.351; 124.575).

State Share: Each Secondary Vocational Cooperative may receive revenue up to $20 times the WADM of member school districts. State aid is equal to total revenue minus the vocational cooperative levy.

Local Share: A cooperative may certify a levy, across the districts, up to .78 percent of adjusted net tax capacity.

Extent of Participation: Five Secondary Vocational Cooperatives comprised of 25 member school districts.

3. *Interdistrict Cooperation Levy.* Encourages districts to cooperate with other districts in increasing or maintaining curriculum offerings in the academic areas of science, mathematics, foreign languages, computer science, as well as other programs recommended by the State Board of Education (M.S. 275.125, Subd. 8e).

State Share: None.

Local Share: The maximum revenue equals the least of $50 per WADM, the estimated instructional costs to the district of the cooperation plan, or $50,000.

Extent of Participation: All districts.

4. *Intermediate District Levies.* Provide tax levy funding for special education and secondary vocational programs for intermediate districts (M.S. 136D.27; 136D.74; 136D.87).

State Share: None.

Local Share: Intermediate districts may levy the greater of the amount of the levy certified in for taxes payable in 1989, or the lesser of $50 times current year WADM , or 1.43 percent of adjusted net tax capacity.

Extent of Participation: Three intermediate school districts.

The four programs described above are replaced beginning in 1994-95 with a new district cooperation program. A district's maximum revenue under the new program is the greater of $67 times WADM or $25,000. School districts levy for a portion of the revenue; the levy is equalized by the state based on an equalizing factor (guaranteed tax base) of $3,500 per WADM.

5. *Cooperation and Combination.* This program provides significant incentives for two or more districts to improve services and programs for students through cooperation and combination of districts. Districts with approved Cooperation and Combination plans may receive revenue through this program (M.S. 124C.02).

State Share: Maximum revenue is $100 per pupil unit served up to a maximum of $200,000 for the group for each of the first four years of the program. The revenue is equalized at a percentage of the general education equalizing factor. The percentage of the equalizing factor used is 100 percent, 75 percent, 50 percent, and 25 percent, respectively, for the first, second, third, and fourth years of the program. State aid is equal to total revenue minus the cooperation and combination levy. In addition to the equalized revenue, school districts also receive $100 per pupil unit served in additional aid in the first year of cooperation and in the first year of combination.

Local Share: School districts levy for the local share of cooperation and combination revenue based on the equalizing factors noted above.

Extent of Participation: 27 approved cooperating or combining groups comprised of 62 school districts.

Integration Grants

(Laws 1987, Chapter 398, Article 6, Section 18 & 19 Subd. 12; Laws 1988 Chapter 718, Article 6, Section 24, Subd 4; Laws 1989, Chapter 329, Article 8, Section 14, Subd. 3; M.S. 275.125, Subd. 6e and 6)

Funding in 1993-94: $18.8 million State Aid (less than 1% of total state school aid).
$14.6 million Gross Levy (less than 1% of total gross levy).

Description: Funding provides for additional education costs associated with implementing an approved desegregation plan for three Minnesota school districts.

State Share: Amount awarded to each district is specified in law.

Local Share: For Minneapolis and St. Paul, $197 times WADM; for Duluth, two percent of ANTC plus $660,000.

Extent of Participation: Three districts.

American Indian Programs

(M.S. 126.44 - 126.55; Laws of 1989, Chapter 329, Article 8, Section 25, Subdivision 11; M.S. 124.481; M.S. 124.48; M.S. 125.62; M.S. 124.86; M.S. 124.86, Subdivision 4)

Funding in 1993-94: $3.4 million State Aid (less than 1% of total state school aid).

Description: Programs included in this section are Indian Language and Culture, Indian Education, Indian Post-secondary Preparation, Indian Scholarships, Indian Teacher Grants, Tribal Contract Schools, and Tribal Contract Schools-ECFE.

State Share: State provides grants to fund program costs.

Local Share: Balance of costs.

Secondary Vocational

(M.S. 124.573)

Funding in 1993-94: $12.1 million State Aid (less than 1% of total state school aid).

State Share: Seventy-five percent of the difference between instructional salaries (excludes administrators) for approved vocational programs and 50 percent of the general education revenue attributable to vocational average daily membership (ADM); and 40 percent of approved expenditures for: contracted services, travel between instructional sites, professional development travel, student organization travel, curriculum development activities, and specialized instructional supplies.

Beginning in 1994-95, the state share equals the lesser of (a) 25 percent of instructional salaries, contracted services, instructor travel, curriculum services and specialized supplies for approved programs, or (b) $80 times ADM in grades 10-12. The aid must not be less than the lesser of 95 percent of the aid for the previous year or 40 percent of approved current year expenditures.

Local Share: Balance of costs.

Extent of Participation: 256 school districts/cooperatives.

Community Education

(M.S. 121.85-121.88; 124.2713)

Funding in 1993-94: $3.0 million State Aid (less than 1% of total state aid).
$26.7 million Gross Levy (1.3% of total gross levy).

Description: A district's community education revenue is the sum of the district's general community education revenue and youth service revenue. The general community education revenue equals $5.95 times the district's population, but not less than $7,943. Youth service revenue is 85 cents times the district's population, but not less than $1,135.

State Share: A district's maximum community education aid equals the maximum community education revenue minus the maximum community education levy. If a district levies less than the maximum amount, state aid is reduced proportionately.

Local Share: To receive the maximum community education revenue, a district must levy an amount equal to the lesser of the maximum revenue or 1.095 percent of the districts's ANTC.

Extent of Participation: 382 districts have general community education programs, and 328 districts have youth service programs.

School Lunch and Breakfast
(M.S. 124.646)

Funding in 1993-94: $6.7 million State Aid (less than 1% of total state aid).
$0.0 million Gross Levy (0.0% of total gross aid).
$6.7 million Total Funding (less than 1% of total funding).

Description: The purpose of this program is to provide required state matching funds to assure the continuation of federal assistance funds for the National School Lunch Program and additional funding for state lunch and breakfast programs.

State Share: State aid reflects 7.5 cents plus the amount per fully paid lunch required to be allocated for the fiscal year in order to meet the state revenue matching requirement.

Local Share: None.

Extent of Participation: 392 school districts and 251 private schools.

Adult Education Programs

Funding in 1993-94: $ 5.7 million State Aid (0.3% of total state aid).
$ 5.9 million Gross Levy (0.4% of total gross aid).
$11.6 million Total Funding (0.3% of total funding).

1. Adult Basic Education
(M.S. 124.26)

State Share: Aid is equal to 75 percent of approved salaries of adult basic education teachers, counselors, coordinators, and nonlicensed instructional staff, plus 75 percent of approved expenditures for benefits, contracted services, and materials.

Local Share: Districts may levy an amount not to exceed the amount raised by a net capacity rate of .16 percent times the AGTC of the district for the preceding year.

Extent of Participation: 382 districts; 55,000 participants

2. Adults with Disabilities
(M.S. 121.88 Subd. 6-7; 124.2715)

State Share: State aid provides the lesser of $30,000 or one-half the actual expenditures.

Local Share: The district is required to match this aid amount either through a local levy or through other local sources.

Extent of Participation: 84 districts; 19,000 participants.

3. Adult Graduation Aid
(Diploma Opportunities For Adults)
(M.S. 120.06, Subd. 3; 124.17, Subd. 2e; 124.261; 126.22 Subd. 2d and 3)

State Share: Adult graduation aid for eligible pupils age 21 and over, equals 65 percent of the General Education formula allowance time 1.35 times the average daily membership. Adult Graduation Aid is paid by the state in addition to any other aid to the district.

Local Share: Balance of costs.

Extent of Participation: 2,742 participants.

4. Hearing Impaired Adults
(M.S. 121.201)

State Share: State provides funding for school district and private agency claims for hearing impaired services rendered.

Local Share: None.

Extent of Participation: 200 public and private agencies.

Miscellaneous State Categorical Programs

Graduation Rule Acceleration	$4.2 million
Abatement	$7.6 million
Public Libraries	$8.3 million
Management Information Centers	$3.2 million
Minnesota School of the Arts & Resource Center	$5.6 million
Early Childhood Screening	$1.6 million
Education Effectiveness	$0.9 million
Local Collaborations	$5.0 million
Youth Apprenticeship	$0.5 million
Environmental Projects (LCMR)	$1.5 million
Way to Grow	$0.5 million

XI. AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-94: $33.2 million State Aid* (1.3% of total state funding)
*(Includes estimates for tax deductions)

Description: In Minnesota, nonpublic pupils receive services under seven state programs.

1. *Nonpublic Pupil Aid* (M.S. 123.931-123.947). Under this program, school districts are reimbursed for the costs incurred in obtaining the educational materials that are loaned to the nonpublic pupil or for the costs incurred in providing pupil support services to the nonpublic pupil. The maximum reimbursement is limited to an amount equal to the statewide average expenditure per public pupil in the second prior school year multiplied by the number of nonpublic pupils served. Districts are provided an additional five percent of the reimbursed amount to offset the cost of administering the program.

2. *Shared Time Program* (M.S. 124A.034). Nonpublic pupils may be admitted by school districts to public school programs for part of the school day. These pupils earn a shared-time portion of the general education aid for the district.

3. *Transportation Program* (M.S. 123.76-123.79). School districts are required to provide "equal transportation" to nonpublic school pupils. Public schools are also permitted to transport nonpublic school pupils to regular shared-time programs and must transport handicapped nonpublic pupils to and from the facility where special education is provided.

4. *Tobacco Use Prevention Program* (M.S. 124.252). Each school district with a tobacco use prevention program based on the criteria in state law, is eligible for aid. If the district program includes the participation of nonpublic pupils, staff, or parents, district funding is increased accordingly.

5. *School Lunch Program* (M.S. 124.646). State funds are used to meet matching requirements of the United States Department of Agriculture National School Lunch Program.

6. *School Milk Program* (M.S. 124.648). State funds are provided to pay, in part or in total, the cost of serving one-half pint of milk per day to kindergarten students.

7. *State Income Tax Deductions* (M.S. 290.001). Taxpayers who itemize deductions may deduct from gross income the amounts they spend for tuition, secular textbooks, and transportation of dependents attending public or nonpublic elementary or secondary schools in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin. The maximum deductions are $650 per dependent in Grades K-6 and $1,000 per dependent in Grades 7-12.

State Share: Varies with program.

Local Share: None.

Extent of Participation: In FY 1994, approximately 81,700 students participated in nonpublic pupil programs.

XII. EARLY CHILDHOOD EDUCATION

Early Childhood Family Education (ECFE)

(M.S. 121.882; 124.2711; 275.125, Subd. 8b)

Funding in 1993-94: $13.6 million State Aid (less than 1% of total state aid).
$17.5 million Gross Levy (less than 1% of total gross aid).
$31.1 million Total Funding (less than 1% of total funding).

Description: Maximum revenue is equal to $101.25 times the population (age birth to four) but not less than $15,187.50 per district. For FY 1994, the statewide ECFE programs were supported 56.3 percent with local levy and 43.7 percent state aid.

State Share: Aid is equal to maximum revenue minus levy, with a proportionate reduction in aid for any underlevy.

Local Share: Levy is equal to the lesser of maximum revenue or 0.626 percent times the AGTC.

Extent of Participation: 350 school districts.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax that funds schools. In 1993-94, gross property tax levies certified by school districts totaled $1,999.9 million. The state pays a portion of gross school levies through property tax relief aids paid to school districts; in 1993-94 state-paid property tax relief to school districts totaled $207.8 million. The portion of the school levy remaining after subtracting the state paid property tax relief aids, called the "net levy," is collected through the property tax system. School district net levies totaled $1,792.1 million in 1993-94.

In addition to payments made to school districts, homeowners and renters receive property tax relief based on the relationship of the property tax on the home or rental unit to total household income. This relief is paid directly to the individual by the state. In order to be eligible for the refund, a person's property tax must be more than a specified percentage of household income. Above that level, the state will pay a percentage of the tax, up to a maximum refund. The percent of income, percent of state payment, and maximum refund depend upon the income of the claimant. As the claimant's income increases, the amount the state pays decreases. Eligibility for the property tax refund is limited to claimants with incomes under $60,000 for homeowners and under $35,000 for renters.

M.S. 273.11 requires that all taxable property (with certain exceptions) be valued at its market value. County assessors determine the estimated market value of taxable property as of January 2 of each year. One-fourth of the parcels within a taxing district are assessed each year so that all parcels can be reassessed at least once every four years. The properties are also assigned a classification according to how the property is used (e.g., commercial, residential homestead, or agricultural). Each classification has a gross and net classification percentage rate that is applied to the market value to determine the gross and net tax capacity value. The classification percentages used in computing gross tax capacities are higher than those used in computing net tax capacities for residential homestead and agricultural properties.

To adjust for differing local assessment practices, the State Department of Revenue conducts a sales ratio study each year. This study compares assessor's market values with actual sales prices of properties sold over a 21 month period. The tax capacities are adjusted by the results of the sales ratio study. The results are called Adjusted Gross Tax Capacity (AGTC) and Adjusted Net Tax Capacity (ANTC). Since 1991-92, ANTC has been used in computing all school levies.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

Homestead and Agricultural Credit Aid (HACA)

(M.S. 273.1398)

State-paid property tax credits for schools include Homestead and Agricultural Credit Aid (HACA), Disparity Reduction Aid, and several smaller credits. HACA replaces the homestead credit and agricultural credit programs beginning in FY 1991. The homestead and agricultural credit provided property tax relief to owners of residential and agricultural homesteads by providing a credit against the gross tax computed for their individual property; school districts received state aid to offset the reduction in school levies attributable to these credits. Under the new system, school districts receive HACA payments, and the payments reduce the school's overall tax rate. Tax relief is provided to owners of residential and agricultural homestead property by reducing the percentages used in computing net tax capacity for these property types relative to other property types. The effect of this change is to sever the link between current tax levies and the amount of state paid property tax relief, thereby strengthening district incentives to control growth of property taxes.

Disparity Reduction Aid

(M.S. 273.1398, Subd. 3)

Description: Disparity reduction aid reduces the total tax rate of unique taxing jurisdictions that have relatively high tax rates. Disparity reduction aid is equal to the previous year's disparity reduction aid multiplied by the ratio of: (1) the jurisdiction's tax capacity using class rates for taxes payable in the year for which aid is being computed, to (2) its tax capacity using the class rates for taxes payable in the prior year, both based upon market values for taxes payable in the prior year. School Debt service and excess referendum levies are excluded from gross taxes payable for purposes of allocating disparity reduction aid.

State Share: $12.8 million.

Local Share: None.

Extent of Participation: All school districts.

Taconite Homestead Credit

(M.S. 273.134; 273.135)

Description: Homeowners in a Taconite property tax relief area have their property taxes reduced by the Taconite homestead credit. The Taconite homestead credit is subtracted from each homestead taxpayer's gross property tax.

State Share: None. Taconite production tax revenues are used to fund this credit. In FY 1994, the credit was $3.3 million.

Local Share: None.

Extent of Participation: 17 school districts.

Attached Machinery Aid

(M.S. 273.138, Subd. 3)

Description: Attached machinery (tools implements, machinery, or equipment that is attached to or installed in real property for use in business or production) is exempted from real property taxation. Attached Machinery Aid replaces the revenue that school districts lost as a result of this exemption.

State Share: $0.8 million.

Local Share: None.

Extent of Participation: All school districts.

Other Credits

Enterprise Zone Credit (M.S. 273.1312; 273.1314).
Disaster Credit (M.S. 273.123).
Agricultural Preserves Credit (M.S. 473H.10).

XIV. TAX AND SPENDING LIMITS

Tax Limits

The state of Minnesota limits the amounts that school districts can levy for general education and each categorical funding program. Formulas for computing the maximum levy for each funding category are specified in state law. The state Department of Education determines the maximum levy for each school district by funding category and certifies this information to school districts and county auditors. School districts may increase the amounts levied for general education or debt service with approval of district voters in a referendum election.

XV. EARMARKED STATE REVENUE

State aids and tax credits are paid out of Minnesota's General Fund. Additional funds from the Permanent School Fund (Endowment Fund) are also available for school revenue.

XVI. SPECIAL TOPICS

None.

MISSISSIPPI

Smith Sparks, Director
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I. GENERAL BACKGROUND

State

- The revenues for public education in Mississippi as a percent of the state's general fund have slowly declined during the past four years ranging from a high of 46.58 percent in 1991-92 to 42.33 percent in 1994-95. The major sources of revenue that make up the state's general fund are sales tax, individual income tax, corporate and franchise tax, and oil and gas severance tax.
- Mississippi continues to use the minimum foundation concept for the major share of funding for public education. This program was enacted in 1953 and provides for classroom teacher units based on average daily attendance.
- The state also provides approximately $50 per homestead exemption application filed to reimburse local school districts for loss in *ad valorem* tax revenues.
- Conservatorship (Mississippi Code, Section 37-17-6): The 1991 Legislature enacted new legislation that authorizes the State Board of Education to implement a program of development for schools failing to meet accreditation standards. If corrective action is not taken by the end of a probationary period, the State Board of Education, acting through the Accreditation Commission, is authorized to withdraw a district's accreditation. The State Board of Education, after a state of emergency is declared in a disaccredited district, is authorized to select from the following actions: escrow some or all of state funds; override a local board decision on the budget or expenditures; assign an interim conservator to administer the operation of the school term; grant transfer to students; or abolish the district.
- Alternative School Programs: The 1991 Legislature enacted new legislation that will require all school districts to establish an alternative school program for the following categories of students: (1) any compulsory school age child (under the age of 17 years) referred to the program by any chancellor or youth court judge including, but not limited to, nonviolent juvenile offenders confined in any youth court detention facility; (2) any compulsory-school-age child who has dropped out of school in violation of the compulsory school attendance law, has been suspended or expelled from school, or committed disciplinary infractions which will result in expulsion from school; (3) any compulsory school age child referred to such alternative school by the parent, legal guardian or custodian of such child due to disciplinary problems. The operating expenses of the alternative school programs are to be paid from funds contributed or otherwise made available to the school district for such purpose or from local district maintenance funds.

Local

(Mississippi Code, Section 37-57-1, *et. seq.*)

- There are 149 operating school districts in the state, all of which are fiscally dependent. School districts must petition local taxing authorities to levy and collect taxes for them. County unit systems generally have elected superintendents and elected school board members. Municipal and consolidated unit systems have appointed superintendents and appointed school board members.

- Property tax constitutes the sole source of local tax revenues. For the 1993-94 school year, the number of mills levied for current operation ranged from a low of 23.4 mills with a $27,500 wealth per ADA to a high of 65.29 mills with a $28,246 wealth per ADA. The statewide disparity in wealth per ADA ranged from a low of $5,025 with 47.84 tax mills to a high of $48,701 with 36.32 tax mills.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$957 million
Grants in aid	847 million	
Teacher retirement contributions	53 million	
FICA	57 million	
Total Local School Revenue		$567 million
Property tax revenue	375 million	
Other local source tax revenue	0 million	
Local source non-tax revenue	192 million	
Total Combined State and Local School Revenue		$1,524 million
State-Financed Property Tax Credits Attributable to School Taxes	$62 million	

II. THE BASIC SUPPORT PROGRAM

Minimum Education Program

Funding in 1993-94: $860.7 million (81.28% of total state school aid).

Nature of Program: Foundation program known as the Minimum Education Program (MEP) (Mississippi Code, Section 37-91-1, *et. seq.*).

Allocation Units: Teacher units.

Local Fiscal Capacity: Economic Index. Factors included in the Economic Index are:

County's Percent of	times	*Weight*
Assessed valuation of public utilities in the state		.242152
Retail sales tax paid in the state		.242152
State total motor vehicle license receipts		.044144
Total value of farm products sold		.065110
State total personal income taxes paid (average percent)		.142688
State total of gainfully employed nonfarm, nongovernmental workers		.222936

The Economic Index is recalculated every two years. Distribution of the index between county units and separate school districts within the county is determined by the percent of the county's total assessed valuation relative to each district.

How Formula Operates: The MEP provides salaries for classroom teacher units based on average daily attendance as follows:

Regular Classroom Teacher Units

- one teacher unit per 24 students in ADA for kindergarten and grades 1-4.
- one teacher unit per 27 students in ADA for all other grades.

ADA counts are based on the prior school year or for the 2nd and 3rd months of the current, whichever is greater.

Special Education Units

- Adds an additional full teacher unit for each State Department of Education (SDE) approved program. (Includes gifted and talented programs.)

Vocational Education Units

- Adds an additional one-half teacher unit for each SDE approved program.

Enrollment in kindergarten and grades 1-4 is restricted to 27 students per class at any time during the school term unless a "hardship" waiver is granted by the State Board of Education.

Once the number of ADA teacher units is determined, state funds are allocated (based on the legislated statewide minimum salary schedule) to individual teachers employed in each district who have the highest certificate level and most years of experience. This means that the state MEP funds received by a district are calculated based on a district's higher teacher salaries, leaving the less costly salaries to be paid from local school district funds. Special education and vocational education teachers are funded based on the certification level and the number of years teaching experience of the individual teacher employed.

The fixed statewide minimum salary schedule is based on the type of certificate held and the number of years of teaching experience of the teacher. The schedule includes four levels of certification and up to 20 years of annual experience salary increments. The 1993-94 schedule is outlined below (*the 1994-95 schedule is in parenthesis*):

Teacher Certification	*Beginning Salary*	*Maximum Salary*	*Years to Reach Maximum Salary*
Bachelor's	$18,425 (19,650)	$24,425 (26,110)	16 (17)
Master's	19,225 (20,650)	28,225 (30,310)	20 (21)
Master's (plus 30 hrs.)	20,025 (21,450)	30,025 (32,160)	20 (21)
Doctorate	20,825 (22,250)	31,825 (34,010)	20 (21)

In addition to salaries, MEP provides each district an allocation for "administration" cost, support service cost (non-salary), and fixed charges (Social Security and state retirement). An allotment for transportation cost is also included (see Section III — Transportation). These allotments include:

- District Administration. A sum of $15,000 plus $50 for each teacher unit in excess of 50 units, not to exceed $25,000.
- Local Administration. A sum of $75 per year for each teacher unit.
- Supportive Services. A sum of $3,625 per teacher unit. (Increases to $4,009 for 1994-95.)
- Transportation. An allotment based on a density formula and approved rate table.

- Fixed Charges. The employer's share of Social Security and State Retirement (current rate less 1.5 percent) for all salaries paid from the MEP.

The MEP sets a "minimum school term" of 185 days of school in which both teachers and pupils are in regular attendance for scheduled classroom instruction. *Increased to 187 days for the 1994-95 school year.*

The plan, under Mississippi Code, Section 37-21-1, *et. seq.*, also establishes the Mississippi Reading Improvement Program (Assistant Reading Instructors). Each school district is allotted one assistant teacher unit per 24 students in average daily attendance in grades 1-3. However, the superintendent of each school district may assign the assistants to grades kindergarten, 1, 2, or 3 in a manner that will promote maximum efficiency. The assistants aid pupils in actual instruction under the strict supervision of a certified teacher.

State Share: The state share is equal to the calculated MEP amount minus the required local share. In no case shall the total state funds provided in any year for the support of the MEP in any county be less than 40 percent of the cost of the MEP for that county or school district.

Local Share: The statutes fix a set amount of local *ad valorem* tax contribution toward the total cost of the MEP. For 1993-94, the aggregate amount of local *ad valorem* contribution to be made by all counties and separate districts was $22.0 million; 2.56 percent of the total cost of the MEP. The required local share is determined by multiplying the local Economic Index times the $22.0 million.

In addition to the *ad valorem* contribution, the state collects severance tax on oil, gas and timber. An amount fixed by law is retained by the state and the remainder is returned to the taxing authority. Approximately one-half of the amount returned to the taxing authority must be placed in the school district's funds as an additional contribution to the minimum foundation program.

Local school districts may supplement teacher salaries beyond the minimum salary schedule from local funds. The local supplements range from a low of $1 per year to more than $4,000 per year.

Adjustments for Special Factors: None.

Weighting Procedures: None.

Aid Distribution Schedule: Approximately one-twelfth of the grant amount is distributed on the 25th of each month.

Districts Off Formula: None.

Uniform Millage Assistance Grant

Funding in 1993-94: $31.09 million (2.94% of total state school aid).

Description: In 1989, the Mississippi State Legislature created an act known as the "Mississippi School District Uniform Millage Assistance Grant Program" (UMAG) (Mississippi Code, Section 37-22-1, *et. seq.*). It was the intent of the Legislature that "through this grant program, each student counted in average daily attendance in the public schools in Mississippi shall have equal access to funds generated by a uniform minimum school district *ad valorem* tax levy." The Act became effective for the 1990-91 school year.

There are three critical elements of UMAG: (1) uniform "minimum *ad valorem* tax levy," (2) "maximum yield" at the uniform minimum *ad valorem* tax levy, and (3) individual student entitlement.

Under the minimum *ad valorem* tax levy, each school district is required to levy the minimum millage which the State Board of Education shall determine each year or the millage necessary to produce the maximum yield whichever is less. Until June 30, 1993, the minimum millage is the statewide combined average of operational levy for the preceding fiscal year less four mills. The uniform minimum *ad valorem* tax levy shall be the amount of millage certified by the State Board of Education for the 1993 fiscal year.

For the 1993-94 school year, the State Board of Education set the minimum *ad valorem* tax levy at 33.04 mills and individual student entitlement rate of $614 per child. This is the estimated amount that 33.04 mills applied to the total state taxable assessed valuation divided by state aggregated ADA would produce. This means that for the 1993-94 school year each school district must levy 33.04 mills or the amount sufficient to produce $614 per ADA whichever is less. There is a provision that if a school district was levying less than the uniform minimum school district *ad valorem* tax levy on July 1, 1989, or a millage rate necessary to generate the maximum yield rate, the district shall only be required to increase its levy in four mill annual increments in order to attain the minimum millage requirements.

State and Local Shares: Before the state provides any UMAG funds to a district, other local sources of revenue are considered in determining the $614 per ADA level. If a district's *ad valorem* tax levy applied against its assessed valuation does not produce the $614 and the district has other local sources of revenue that when added together with the *ad valorem* taxes collected produces the $614, then the district gets no additional state funds. However, if the district's *ad valorem* taxes collected plus other local sources of revenue do not produce $614 per ADA, then the state contributes the amount required to bring the per child allocation up to the $614 individual student entitlement.

Under Mississippi's plan, there is no "recapture" or "redistribution" of local wealth. A district having high wealth plus a high tax levy keeps all funds generated. It is possible for a district having a high tax levy with a small assessed valuation and limited other local revenue to receive UMAG funds.

There is a second level funding program which provides additional funds (regardless of local wealth) to any county where there is only one school district located therein. The underlying rationale is to bring about voluntary district consolidation. For the 1993-94 school year, the allocation for the second level funding was $36 per ADA.

Extent of Participation: 119 districts

III. TRANSPORTATION

(Mississippi Code, Section 37-19-23)

Funding in 1993-94: $46.08 million (4.35% of total state school aid).
This amount is included in the MEP funding amount shown in Section II.

Description: The allotment for transportation through the MEP is based on a density formula (the number of ADA transported per square mile of the district) and a State Board of Education rate table. The rate table provides greater amounts per pupil in districts with fewer pupils transported per square mile.

State and Local Shares: The state share is equal to the calculated amount. The district assumes the remaining costs. The state/local share of the total cost of transportation has changed from 79.4 percent state and 20.6 percent local in 1983-84 to 58.1 percent state and 41.9 percent local in 1993-94.

Extent of Participation: 150 districts

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Public School Building Fund

(Mississippi Code, Section 37-47-1, *et. seq.*)

The public school building fund was established in 1953 to provide state funds for capital improvement of schools in the state. Capital improvements include "the cost of erecting, repairing, equipping, remodeling and enlarging school buildings and related facilities." This program assists school districts in defraying the costs of capital improvements necessary to provide adequate school facilities. The financial structure of the state public school building fund is made up of three interlocking, yet distinct features: (1) annual grants to school districts, (2) legislative funding of the program, and (3) state school bonds.

Annual Grants. The Legislature increased the annual grants from $12 to $24 per student in average daily attendance. These grants are to "be applied for the purpose of establishing and maintaining adequate physical facilities for the public school system." In addition to the grants which accrue annually, school districts are also allowed to borrow in anticipation of future grants. The State Board of Education is authorized to lend districts a maximum of 75 percent of the estimated grants which will accrue to the districts within the next 20 years. Such loans bear interest at the rate of 2.5 percent per year or the average interest rate which the state pays on its school bonds, whichever is higher. All grants and loans made to school districts must be expended on projects approved by the State Board of Education.

Legislative Funding. Legislative funding for this program is through a diversion of state sales tax. Although the Legislature adopted the program of providing annual grants to school districts in 1953, no state funds were provided until the 1955 Legislature set aside $555,000 per month. During the intervening 40 years, this monthly allocation of sales tax diversion has been increased to $1,666,666 per month. From this monthly allocation of state sales taxes, the State Public School Building Fund is required to pay the principal and interest for the retirement of outstanding state school bonds first. The balance of the allocation may be expended on school construction projects. In the 1994-95 school year, 44.98 percent of the funds will be used for principal and interest repayment.

Current bonds outstanding are $31,830,000. These bonds will be retired May 1, 2001, allowing the entire monthly revenue to be expended as cash.

Local Capital Project Financing

School Bonds and Obligations

(Mississippi Code, Section 37-59-1, *et. seq.*)

In addition to receiving capital outlay funds through the state public school building fund, the school boards are authorized to issue negotiable bonds for capital improvement purposes. The amount of outstanding bonded indebtedness is limited to 15 percent of the assessed value of the taxable property within such district. A referendum is required before any money can be borrowed under this provision. Sixty percent of the qualified electors who vote in such election must vote in favor of the issuance of bonds.

Other Debt Service

(Mississippi Code, Section 37-59-101, *et. seq.*)

A school district also has authority to execute negotiable notes or certificates of indebtedness for the purpose of making repairs, alterations, and additions to school building, purchasing heating plants, fixtures and equipment, purchasing land for school purposes, school buses and transportation equipment, improving and equipping school lands for recreational and athletic purposes, and for air conditioning school buildings. The amount that can be borrowed under this provision is limited to the dollar amount (principal plus interest) that a three mill tax levy levied for no more than ten years would repay. By giving notice of intent, the school district may levy the additional mills without referendum unless there is a petition signed by not less than 20 percent of the qualified electors calling for an election on the matter and approved by 60 percent of those voting in the election.

V. TEACHER RETIREMENT

Funding in 1993-94: $57.5 million (5.4% of total state school aid).
(Included in the MEP funding amount shown in Section II.)

Description: A separate state agency, the Public Employee's Retirement System of Mississippi, administers the state retirement program. Created in 1952, it is a self-funded actuarial reserve type system and by statute was created as a pension trust fund (Mississippi Code, Section 25-11-101, *et. seq.*).

State and Local Shares: The current employer rate for retirement contributions is 9.75 percent of salaries; of this the MEP pays 8.25 percent with the district paying the remaining 1.5 percent. The current employee rate of retirement contribution is 7.5 percent of salary on maximum earnings of $75,600.

Extent of Participation: All districts

Social Security

Funding in 1993-94: $52.3 million (4.9% of total state school aid).
(Included in the MEP funding amount shown in Section II.)

Description: The state pays the full share of employer cost for Social Security on all MEP funding elements used for salaries.

VI. SPECIAL EDUCATION

The State provides $113.49 million (10.7% of total state school aid) in Special Education aid. In addition to the funding provided for special education units through the MEP (see Section II) the state also provided funding for the following special education programs.

University Based Programs

(Mississippi Code, Section 37-23-31)

Funding in 1993-94: $0.6 million (less than 1.0% of total state school aid).

Description: When five or more children under the age of 21, who because of deafness, aphasia, emotional disturbance, and/or other low-incidence conditions are unable to have their educational needs met in a regular public school program, and a special education program in their particular area of exceptionality is not available in their respective local public school districts, a state-supported university or college shall be authorized and empowered, at its' discretion, to provide a program of education, instruction and training to such children, provided that such program shall operate under the rules, regulations, policies, and standards adopted by the state department of education.

Mississippi School for Deaf/Blind

Funding in 1993-94: $7.6 million (less than 1.0% of total state school aid)

Description: The State Board of Education administers two residential schools — one for the deaf and one for blind and visually impaired children. The schools teach blind and deaf students independent living skills, academics, and vocational studies in a residential setting.

Learning Resource Centers

(Mississippi Code, Section 37-23-101, *et. seq.*)

Funding in 1993-94: $0.98 million (less than 1.0% of total state school aid).

Description: The state provides funding for districts to establish regional consortiums to do the actual screening of children and for teams in Jackson, Mississippi, to evaluate those results.

Educable Children

(Mississippi Code, Section 37-23-61 through 37-23-77)

Funding in 1993-94: $1.8 million (less than 1.0% of total state school aid).

Description: The Educable Child program provides funds to help educate handicapped children placed in private/parochial schools and in private language/speech clinics. There are three types of programs funded:

1. *Parent Placements.* If a parent places an eligible handicapped child in a program approved by the State Department of Education, that parent can be reimbursed $600 for tuition if the child is in the three through 20 age range regardless of whether there is a local school district program available for that child. If the handicapped child is under age three, the tuition reimbursement will be $1,000 if there is no local school program available for that child and $600 if there is a local program available. If the child is certified as requiring inpatient care in a private intermediate care facility for the mentally retarded or psychiatric residential treatment facility, with medicaid reimbursement, the tuition reimbursement is for the educational cost if an approved private school is operated as an integral part of the facility.

2. *Local School District Placements.* If a handicapped student in the five through 20 age range cannot receive an appropriate education in the local school district where they reside and that district places the student in a State Department of Education approved program, the school district is reimbursed $3,000 for tuition for placement of that student. Local school district personnel must justify the need for an out-of-district placement and must show that available state and local programs have been considered and that a program adequate to meet the student's needs cannot be provided locally.

3. *Welfare Placements.* When the Department of Public Welfare has been given custody (by court order) of a handicapped child in the five through 20 age range and places that child in a private residential school because no foster home can be found for the child, then the actual cost of that student's education in the residential school is reimbursed.

Extended School Year

(Mississippi Code, Section 37-19-5)

Funding in 1993-94: $0.8 million (less than 1.0% of total state school aid).

Description: Additional funds are provided for each handicapped child who is being educated by a public school district and whose individualized educational program (IEP) requires an extended school year in accord with the State Department of Education criteria. The additional cost of these programs, offered during the summer months, is fully reimbursed.

VII. COMPENSATORY EDUCATION

None

VIII. GIFTED AND TALENTED EDUCATION

(Mississippi Code, Section 37-23-171)

Funding in 1993-94 $15.98 million (1.5% of total state school aid).

Funding for teacher units for gifted and talented programs is through the MEP. New legislation requires all local school districts to have programs for gifted education beginning with the 1992-93 school year provided sufficient funds are appropriated by the Legislature.

Mississippi School for Mathematics and Science

(Mississippi Code, Section 37-139-1, *et. seq.*)

Funding in 1993-94: $2.9 million (less than 1.0% of total state school aid).

Description: The Mississippi School for Mathematics and Science (MSMS) is a state supported, residential high school for academically able students housed on the campus of the Mississippi University for Women in Columbus, Mississippi. Students are recruited during their sophomore year and spend their junior and senior years at MSMS.

The MSMS offers an expanded academic program with course offerings ranging from entry level through advanced placement in each subject discipline. The overall objective is to provide bright Mississippi students with a challenging college preparatory background. The 1993-94 school year will be the sixth year of operation.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

In addition to the one-half teacher unit for each approved program of vocational and technical education provided through the MEP, the state funds the following programs.

Vocational Education

(Mississippi Code, Section 37-31-1, *et. seq.*)

Funding in 1993-94: $30.1 million (2.8% of total state school aid)
($21 million in 1994-95)

Description: Through a separate appropriation, local school districts are reimbursed for salaries of approved ongoing vocational and technical instructors, counselors, and administrators who are employed by a local public school district.

State and Local Shares: The state will pay:

1. Forty-nine percent of the state's minimum salary extended from 9.5 to 10 months of employment for skill programs, diversified technology instructors, and complex counselors.

2. Forty-nine percent of the state's minimum salary schedule extended from 9.25 to 10 months of employment for basic vocational program instructors and discovery program instructors.

3. Twenty percent of the state's minimum salary schedule extended from 9.25 to 10 months of employment for enrichment program instructors.

4. One hundred percent of the minimum salary schedule extended up to 10 months of employment for vocational directors and assistant directors.

5. One hundred percent of the base salary of a home economics aide in a depressed home economics program, not to exceed State Board set rates, for 9.25 to 10 months of employment.

6. Forty-nine percent of the state's vocational salary schedule extended 40 days in compliance with Mississippi Code section 37-31-13 for secondary vocational programs that contribute to economic development.

Vocational funding for the Mississippi School for the Deaf and the Mississippi School for the Blind is 100 percent of the state's minimum salary schedule extended up to 12 months of employment for approved vocational instructors, vocational counselors, and vocational administrators.

The state also provides 100 percent reimbursement for specific approved equipment, supplies and other expenses necessary for the provision of vocational and technical education.

Textbook Procurement

(Mississippi Code, Section 37-43-1, *et. seq.*)

Funding in 1993-94: $17.1 million (1.3% of total state school aid).
(Includes $11.6 million from Education Enhancement Funds.)

Description: Mississippi provides "free" textbooks to students in public schools and eligible private schools. The books are owned by the public school districts and nonpublic school books are state-owned and are "loaned" to pupils at no cost. A privately operated warehouse/distribution center facilitates the delivery of this service. There is a rotating six year adoption procedure. Under the adoption procedure, the Governor appoints three members and the State Superintendent of Education appoints four members to rating committees who recommend up to eight publishers in each subject area. Local school districts may adopt any of the state adopted textbooks. The 1994 Legislature made provisions that school district's may purchase either adopted or non-adopted textbooks.

State and Local Shares: During the 1993-94 school year, the state provided $14.03 per child in average daily attendance (grades 1-12). Additional textbooks and supplemental teaching materials are provided through the local funds of the school district.

Comprehensive School Health Education

(Mississippi Code, Section 37-13-131)

Funding in 1993-94: $0.2 million (less than 1.0% of the total state school aid).

Description: During the 1990 session,The Legislature authorized the State Department of Education to develop and administer a Comprehensive School Health Education Program as a curriculum in the public schools. The curriculum is to be gradually phased in with full implementation completed by the 1995 fiscal year. A contract to develop an instructional plan for the Comprehensive Health curriculum will be issued. This plan will include teaching methods, materials, evaluation methods, and test items for the objectives in the curriculum. A contract for evaluation will also be issued to evaluate the effectiveness of the curriculum. The intent of the program is to motivate students to maintain their health and promote wellness among themselves and their peers.

Education Reform Act

Funding in 1993-94: $3.98 million (less than 1.0% of total state school aid).

Description: The Education Reform Act of 1982 is a comprehensive strategy for the improvement of public education in Mississippi. The Education Reform Act specifies that the educational policy of the state of Mississippi include that public schools must produce a functionally literate population; must establish, raise, and maintain educational standards; must ensure that all students master the essential parts of a basic education; and must emphasize early mastery of the skills necessary for success in school. In continuing to fulfill the goals and objectives of the Reform Act, the State Department of Education must provide a performance-based accreditation system; continued development and revision of staff development materials; teacher certification rules and criteria that include the National Teachers Exam testing, on-the-job assessment, and the required staff development; continued research in regard to dropout prevention programs; update data on teaching out-of-field, emergency certificates information, and other issues related to teacher supply and demand in Mississippi; an Executive Management Institute that provides continuing training of all school administrators; Instructional Management Assistance that reviews proposed policy recommendation, advises as to their viability, identifies needed assistance for schools and communicates information; a personnel appraisal system; staff development to assist local districts to improve staff development programs based on needs substantiated by accreditation data; a statewide testing program; remediation programs that will provide nationally validated school based intervention programs; and continue to study the Mastery of Subject Matter with focus on the need for district-wide and school-wide objectives in every subject and every grade; the need for subject-to-subject and grade-to-grade linkage of objectives and development and use of district-wide tests matched to objectives.

Writing-To-Read Grant

Funding in 1993-94: $0.75 million (less than 1.0% of total state school aid).

Description: The Writing-to-Read Matching Grant matches funds previously made available to Reading Mississippi, Inc. by the Riordan Foundation for the purpose of purchasing and installing learning centers in the public kindergarten and grammar schools of Mississippi.

Sixteenth Section Trust Land

Funding in 1993-94: $5.8 million (less than 1.0% of total state school aid)

Description: Reforms in the administration of Sixteenth Section trust land administered by local school boards have brought about an increased in revenue over the past ten years. Since 1983 the revenue from rents and leases of Sixteenth Section Land has increased from $6.9 million to $8.75 million in 1990. An area of the state representing approximately 32 school districts was allowed to sell Sixteenth Section Land in the early 1800s and the proceeds were invested in various railroad companies. Non-productive "lieu lands" were established in lieu of the privately owned parcels. These lieu lands were largely unmanaged and provided little or no income to the schools. The railroad companies eventually defaulted in payments or made settlements with worthless paper almost resulting in a total loss in revenue. A group of school districts were successful in a suit against the state for loss of revenue and since 1985 have received a general fund appropriation in an amount equal to the average per-teacher amount of revenue in the districts that have Sixteenth Section trust land.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

There is no state general fund appropriation to aid private schools. State accredited private schools do receive "free" state owned textbooks (see Section X — Other Categorical: Textbook Procurement) and special education programs that are not offered through the local public school may receive a limited amount of state funds (see Section VI - Special Education: Educable Children).

XII. EARLY CHILDHOOD EDUCATION

There is no state general fund appropriation for early childhood education. Special education programs for 3- and 4-year old children may be funded through the Minimum Education Program.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Property tax is the only tax used by local school districts. The amount generated for the 1993-94 school year was $375.4 million. As prescribed in Article 112 of the State Constitution, property is assessed according to the following specifications: single-family, owner-occupied, and residential real property at 10 percent of true market value; all other real property at 15 percent; public utility property at 30 percent; and motor vehicles at 30 percent.

Income Tax

Not allowed.

Other Sources of Local Revenue

None.

Tax Credits and Exemptions

During the 1992 legislative session, the School *Ad valorem* Tax Reduction Grant was established. Each month, 2.266 percent of the total statewide sales tax revenue collected is deposited into this fund. Beginning with the 1993-94 school year, each school district is appropriated the entire amount of monies deposited into this fund for the previous 12 months in the proportion that the average daily attendance (ADA) of each school district bears to the ADA of all school districts within the state. This amount is distributed to each school district in one payment during the month of July. The tax levying authority of each school district is required to reduce the school district's *ad valorem* tax request in an amount equal to the amount distributed.

Homestead Exemption

The state pays revenue to offset the loss of local *ad valorem* taxes as a result of homestead exemption credits. Each local school district receives approximately $50 per homestead exemption application. This amount is distributed in approximately two equal payments in October and April of each year.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Local school boards may increase tax revenue up to seven percent over the amount collected the previous year without a referendum. By giving notice of intent, the school district can increase up to ten percent unless there is a petition signed by not less than 20 percent or 1,500, whichever is less, of the qualified electors calling for an election on the matter and approved by 60 percent of those voting in the election. The ten percent increase limitation can be increased by an additional amount only when the school board has determined the need for additional revenues and has held an election on the question and the increase has been approved by 60 percent of those voting in the election. A school district may not reduce the amount of local tax support from the previous year and continue to receive state funds unless there has been a reduction in total assessed value of taxable property within a school district or there has been a reduction in number of teacher units.

Spending Limits

See Tax Limits above.

Voter Approval of Budgets and Bond Issues

See Tax Limits above.

XV. EARMARKED STATE REVENUE

With the passage of the one cent sales tax increase in 1992, the state earmarked one cent out of every seven cents of sales tax for education. This amounted to $150 million dollars during FY 1993-94. These funds are earmarked, to a degree, for specific items such as textbooks, transportation, equity funding, classroom instructional supplies, and local *ad valorem* tax reduction. Remaining funds are subject to the normal appropriation process and have been used to assist in the funding of assistant reading instructors, vocational education, and industrial training.

XVI. SPECIAL TOPICS

Mississippi Tech Prep Initiative

Mississippi's Tech Prep Initiative provides students with the skills and competencies needed in today's and tomorrow's work place. It is a concentrated, coordinated approach to lifelong learning and earning. Through comprehensive career centers, Tech Prep students will form realistic goals and aspirations. It brings together all the elements necessary for education and training: educators, business, industry, labor, students, parents, and the community at large.

Primary components of the program are:

- A Career Discovery course for all students at the seventh grade level;
- A Computer Discovery course at the eighth grade level;
- A Technology Discovery course using the modular concept for all ninth grade students;
- Implementation of applied academic instructional methods in mathematics, science, and communications;
- Articulated vocational-technical courses at the high school and community college level;
- Articulated academic courses at the high school and community/junior college level;
- Integration of academic skills into all vocational-technical courses;
- Integration of vocational skills into other academic courses;
- Establishment of sequential courses of study for students enrolled in programs associated with the Tech Prep Initiative;
- Implementation of Career Guidance centers for students in grades 7-12;
- Implementation of a comprehensive career counseling service to students in grades 7-12 and in the community/junior colleges;
- Implementation of a career/educational plan that will assist students in planning and documenting their education and work experience;
- Assessment and documentation of academic and vocational skills gained through Tech Prep through the use of student assessment instruments and procedures; and
- Implementation of school-to-work transition programs (Work-Based Learning) that provide transition skills.

Supporting components of the Mississippi Initiative include:

- A marketing and public relations plan to promote the Tech Prep Initiative to internal and external groups including school staff, business and industry, students and parents, and the general public;
- A staff development effort for all school personnel to develop skills and attitudes necessary for successful implementation of Tech Prep;
- A teacher education component to prepare future teachers (academic and vocational) for Tech Prep; and
- An evaluation component to examine the processes by which Tech Prep is delivered and to serve as a vehicle for review, refinement, and improvement.

Implementation began with funding through federal Carl Perkins Act with the 1992-93 school year with approximately 15 pilot sites (high schools). Approximately 50 sites are added each year with a target date for all students being served by the 1998-99 school year.

Direct program state funding began with the 1994-95 school year: $17.1 million in 1994-95 and $27.5 million in 1995-96. It is estimated that over a five-year period the state will spend in excess of $105 million to implement this program.

Indirect state funding is generated through the Minimum Education Program (see Section II — Basic Support).

MISSOURI

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I. GENERAL BACKGROUND

State

- The major portion of state funds for elementary and secondary education pass through the foundation formula. During the 1993-94 school year, $1.251 billion were distributed to the schools through the foundation program. The foundation formula accounted for $936 million of that amount. These funds account for something less than 27 percent of all the money spent in the state on elementary and secondary education. The current formula was adopted in 1993 and is in a four year transition period. The 1996-97 school year will be the year the new formula distributes 100 percent of the formula money. There was not sufficient money appropriated during the first two years of the transition period (1993-94 and 1994-95) to fully fund the correct percentage of the new formula for those two years.

- The new formula, hereafter referred to as the SB380 formula (Senate Bill), is highly sensitive to the local tax rate and pupil count. The state, in effect, guarantees each district the same amount of total revenue from local and state sources as would be available to the 95th percentile student of the state in that student's domicile district for equal tax rates. The 95th percentile student is determined by ranking all students of the state by local assessed valuation per pupil from low to high and then counting from the lowest to the highest until the 95th percentile student was reached.

- There is a provision for a minimum payment through the foundation formula to districts no matter how much local wealth a district possesses. This is normally referred to as hold-harmless. Local wealth is a deduction from the amount generated by the eligible pupil (EP) count and tax rate. EP is the ADA of the regular school term plus two times the ADA of a summer school if held. Property tax is the primary source of a district's local receipts. The local tax rate is affected by a statewide one cent sales tax that is distributed to districts on the basis of EP without regard to the local wealth of a district. The local tax rate must be lowered enough to reduce local tax revenue by an amount equal to one-half of the receipts from the state sales tax. There is a provision for the local district voters to pass a waiver on either to remove the rollback requirement fully or a partial removal. There are some other local taxes such as intangible tax and a tax on state assessed railroads and utilities. The railroads and utilities are taxed at a rate averaged on a county basis.

- The major sources of state revenue are a sales tax and income tax on personal and corporate income. The one cent sales tax dedicated to schools is, by state law, a local tax, although it is administered by the state in all facets. Excluding this tax, Missouri schools do not levy a sales tax. Missouri also has a constitutional provision that prevents any statewide property tax from exceeding ten cents per $100 in assessed valuation.

- Two court cases were filed against the State challenging the school funding formula that was in effect at that time. Those two challenges were combined by the judge who presided over the case. The judge ruled that the old state formula was unconstitutional in both equity and adequacy. This decision added to the impetus to devise a new formula and helped provide the motivation to pass the formula contained in SB380.

Local

- Missouri has 530 school districts. All operate as "six director" districts, even though all but two have seven directors and those two have more. Some districts (80) limit instruction to grade levels lower than grade nine. Generally these districts offer instruction through grade eight and all pay tuition for their students to attend another district's high school. All school districts are fiscally independent.
- Property taxes constitute the sole source of local district tax revenue.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,676 million
Grants in aid	1,676 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Tax Revenue		$2,496 million
Total Combined State and Local School Revenue		$4,173 million
State Financed Property Tax Credits Attributable School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: $936 million (55.8% of total state school aid).

Nature of Program: Foundation program.

Allocation Units: Eligible pupil (EP) count. This count is an average daily attendance (ADA) for the regular school term and two times the ADA calculated for summer school. Districts receive an additional $611 for each free and reduced lunch eligible student.

Local Fiscal Capacity: Tax on locally assessed property plus an intangible tax on financial institutions, and an average of school district tax rates within a county applied against the assessed valuation of railroads and utilities, which is set by the State Tax Commission.

How Formula Operates: The foundation formula is driven by the local school district's EP count, times a guaranteed tax base times the local tax rate. The guaranteed tax base is set at the local assessed valuation per pupil contained in the school district that contains the 95th percentile student when all students in the state are ranked according to assessed valuation per pupil from low to high.

From the amount generated by this procedure certain receipts are subtracted. These deductions are:

1. One hundred percent of the local tax rate times the district's assessed valuation times an income factor. The income factor is a modification of the ratio obtained by dividing the district average income per income tax return by the state average income per income tax return.
2. One hundred percent of the intangible tax received.
3. One hundred percent of the fees, fines, forfeitures, escheats, and etc. received.
4. Fifty percent of the total received from the statewide one cent education sales tax (Proposition C).

5. One hundred percent of the "Fair Share" money received from the state (tax on cigarettes).

To the amount derived in the above portion of the formula an amount is added equal to $611 times a "free and reduced lunch" eligible student count. Federal guidelines for determining free and reduced lunch eligible students are used to identify the number of students within the district.

State Share: The state share is equal to the basic formula minus the local deduction plus the allocation for free and reduced lunch eligible student count.

Local Share: The local share is equal to the local deduction discussed in How Formula Operates.

There is a required local effort in order to participate in state aid program. The required local effort is equal to a tax rate of $1.25 per $100 assessed valuation. To be eligible to receive any increase in state aid a district must have a minimum tax rate of $2.75 per $100 dollars of assessed valuation.

Weighting Procedures: There is no weighting by grade level or subject area. The only weighting that exists in the formula is the provision for granting aid for the number of free and reduced lunch eligible students.

Adjustment for Special Factors: The deduction for local assessed valuation made within the formula is adjusted by the "income factor" discussed above. An income ratio of less than 1.0 reduces the deduction and a rate greater than 1.0 increases the deduction.

There is a provision that allows a district with increasing enrollment to estimate the current year EP. Districts that do not estimate are paid on the actual number of EP for the preceding school year with adjustments made the following year for any increase in attendance. Districts that estimate are adjusted the following year to correct for the actual EP, either above or below the estimate. No district's aid is based on less than the preceding year's EP.

Aid Distribution Schedule: Information not provided.

Districts Off Formula: 81 school districts in Missouri are so wealthy that they would receive no formula aid if they were not held as minimum pay districts. These districts receive about $300 per EP.

III. TRANSPORTATION

Funding in 1993-94: $112 million (6.6 % of total state school aid).
The transportation aid has been capped at this amount for the past years.

Description: Districts are reimbursed for approved cost of public school pupils enrolled in regular programs, special education programs, and area vocational-technical education programs (Section 167.231, RSMo). Field trips, student body activities, and maintenance miles are not reimbursable. Currently under discussion is a proposal to modify the current formula.

State and Local Shares: The state uses a formula to determine approved transportation cost and reimburses the district a maximum of 75 percent of that amount. Because of the cap placed on the transportation appropriation, the state cannot reimburse at the 75 percent level. The formula predicts a cost for each district. Pupil density, total mileage and cost incurred by the districts with similar characteristics are used in the calculation. The district assumes the cost above state reimbursement. Districts that do not exceed 105 percent of the predicted cost received 67 percent of the approved cost; districts exceeding 105 percent may receive reimbursement rates as low as 56 percent. All costs are based on the previous year's financial data.

Extent of Participation: All districts except three.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

General state aid is not provided for capital outlay or debt service.

Local Capital Project Financing

The local district may levy a tax rate in the capital projects fund. School districts by a vote of the residents of the district may bond the district up to ten percent of the assessed valuation of the district. The Board of Education then must set a tax rate sufficient to pay the principal, interest, and related yearly cost to retire bonded debt in a maximum or 20 years.

V. TEACHER RETIREMENT

The state does not participate in either the teachers' retirement program (teachers are not eligible for FICA) or the non-teacher retirement program or FICA for non-teaching personnel. The cost is entirely the responsibility of the local districts and the employees. The contribution rate for teacher retirement is 20 percent (10% from the district and an equal amount from the employee).

VI. SPECIAL EDUCATION

Funding in 1993-94: $176.3 million (10.5% of total state school aid).

Description: The state allocates special education money to the local districts through a flat grant for each approved class and for certain positions that deal directly with special education students. During the 1993-94 school year, school districts received approximately $15,500 for each approved class. Teacher aides and ancillary personnel working in these programs generated lesser amounts of state money. Remedial reading programs have been funded as separate programs since 1991-92. The allocation for remedial reading was approximately $11 million in 1993-94 based on $9,200 per class or approved teacher.

VII. COMPENSATORY EDUCATION

See Section VI — Special Education.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $16.2 million (1.0 % of total state school aid).

Description: Reimbursement for gifted education cost is limited to 75 percent of the approved program cost. The district provides the remaining 25 percent.

Extent of Participation: Approximately 238 districts have gifted programs.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $26.9 million (1.6 % of total state school aid)

Description: The state supports two types of vocational programs — those administered as part of a comprehensive high school and the programs included in area vocational schools. The area vocation schools are part of and administered by the local school districts. There are 57 area vocational schools.

Court Ordered Desegregation

Funding in 1993-94: $281 million (1.7% of total state school aid).

Description: The cost of desegregation is partly appropriated by the legislature through the Department of Education. The portion used for building renovation and construction is funded outside the Department of Education appropriation.

Two separate court cases mandated the state share the cost of desegregation. One is for the St. Louis School District and the other is for the Kansas City School District. The Kansas City case involves essentially the Kansas City School District. The St. Louis case involves the St. Louis School District and 16 other districts in a "Voluntary" Interdistrict Transfer (VIT) of students. Some 13,000 students are transferred to surrounding schools.

Minimum Salary

Funding in 1993-94: $6.7 million (less than 1.0% of total state school aid).

Description: The state started a mandated program in FY 1987 to raise the beginning salary of teachers. The required minimum for 1993-94 was $18,000. Districts that were below the minimum were given state supplemental money to bridge the difference in the district's amount paid and the mandated minimum. Restrictions are placed on "new" money received by the district in order to increase the district's minimum salary paid to teachers as the district receives more state aid. The minimum salary supplement from the state will be phased out during the 1995-96 school year. No further appropriations will be made after that school year.

Career Ladder

Funding in 1993-94: $20.5 million (1.0% of total state school aid).

Description: The state partially funds a program that provides stipends to classroom teachers of up to $5,000 for the purpose of keeping excellent career teachers in the classrooms. A teacher must provide a plan for the year that, if accomplished, will provide a better instructional program for the students. Teachers must have been classroom teachers for five years before becoming eligible and then may progress from $1,500 to $3,000 to $5,000. The state's reimbursement to local districts is based on a district's assessed valuation per pupil. The poorest districts receive 90 percent state aid and the more wealthy receive 35 percent. The state approves the district plan and then, based on that plan, the district certifies to the state the amount due the district at the completion of the school year.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

The state provides no aid for private or parochial schools. The Missouri Constitution has a clear and inclusive provision requiring the separation of church and state activities. A "by-pass" is used to flow Chapter 1 funds to other than public schools.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $14.2 million (less than 1.0% total state aid)

Description: Missouri has a "Parents as Teachers" (PAT) program. Its purpose is to aid parents in the teaching process of their pre-schoolers. There are two separate programs involving early screening of pre-kindergarten students and parents of 3- and 4-year olds.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Property taxes constitute the sole source of local district tax revenue. This source includes an intangible tax on financial institutions' profits, which may technically not be a "property" tax. Virtually all property taxes require voter approval. A board of education can levy a rate of $2.75 per $100 of assessed valuation without voter approval if necessary and, in fact, is required to do so in order to receive state aid increases. There is a penalty applied to the state aid payment if the board sets a tax rate higher than the voted rate without further voter approval. The penalty is so severe that only one or two districts have done so. Allowing the board to set a rate of $2.75, which is the lowest rate permitted for most districts, not only allowed a way for the district to receive increases in state aid but provided a way from keeping the district from lapsing if the people failed to vote a rate of $2.75. Tax rates that exceed $3.75 per $100 dollars in assessed valuation require an approval of two thirds of those voting on the issue. The property tax raises approximately $1.7 billion per year. Property assessment by county assessors is evaluated by the State Tax Commission through a sampling process. Residential property is to be assessed at 19 percent of market value while commercial property is set at 32 percent and farm land at 12 percent of a productivity value determined by the University of Missouri. The productivity value is not the "fair market" value of the land.

XIV. TAX AND SPENDING LIMITS

There is no limit on the tax rate that may be voted by a school district if a two-thirds majority is achieved. School tax rates actually levied vary from $1.51 per $100 of assessed valuation (in some wealthy districts that are permitted by law to levy a rate of less than $2.75) to approximately $5.76.

Revenue received from the sale of bonds can only be used for capital outlay expenditures and is limited to ten percent of the assessed valuation of the districts.

XV. EARMARKED STATE REVENUE

Missouri has limited earmarked taxes. One-half of a tax on the premiums of insurance companies with headquarters outside the State of Missouri is dedicated to a textbook fund for local districts. Two taxes on cigarettes are dedicated to schools. One, $0.06 per pack, goes to the foundation program. The other, $0.04 per pack, is placed in a "Fair Share" fund and distributed to school districts on average daily attendance. The $0.01 sales tax administered by the state and dedicated to elementary and secondary education is by state law a local tax. Excluding this tax, Missouri schools do not levy sales taxes.

XVI. SPECIAL TOPICS

Information not provided.

MONTANA

Madalyn Quinlan
Revenue Analyst
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I. GENERAL BACKGROUND

State

- In 1993-1994, for the second time in four years, the state of Montana instituted a major overhaul of the state aid system for public schools. Of significance is an "equalization" structure that determines a maximum and minimum general fund budget for each school district based on the number of students in the district, with the goal of limiting expenditure disparities to 25 percent for similarly sized school districts. A district's minimum, or BASE budget, is 80 percent of the maximum. School districts that were budgeting at less than the BASE budget at the time the new system was established are given until July 1, 1997, to reach the BASE budget level. Districts that were budgeting in excess of the maximum have had their budgets frozen until the legislature approves increases in the funding formula. The BASE and maximum budget of the district is adjusted each year to reflect changes in the school district's enrollment.
- State funds for public school equalization aid come from several sources. A property tax of 95 mills is levied statewide for public school equalization. In addition, Montana earmarks individual and corporate income taxes, coal severance taxes, school trust land revenues, federal mineral royalties, lottery revenues, and coal trust earnings to fund state support for schools. The state share of funding for total school general fund budgets has declined annually from 71 percent for 1990-91 to 67 percent for 1993-94.
- State equalization aid is distributed to all public school districts in the form of direct state aid and special education block grants. In addition, state guaranteed tax base (GTB) aid supplements mill levies in "low-wealth" school districts to fund the GTB budget area, which is the portion of the BASE budget not funded with direct state aid or state special education block grants. A district is eligible for guaranteed tax base aid when the ratio of the district's taxable valuation to the GTB budget area is less than the statewide average. Guaranteed tax base aid matches local property tax levies to fund a district's BASE budget. Any budgeted expenditures in excess of the BASE budget are funded solely with local district revenues.
- State aid is also provided to districts to fund pupil transportation, teacher retirement, and debt service on school facilities. The state transportation payment reimburses a portion of district transportation costs for bus routes approved by county transportation committees. State assistance for teacher retirement and debt service payments is a form of guaranteed tax base aid similar to that provided to supplement district general fund budgets.
- In 1985, 61 school districts filed suit against the state claiming underfunding of the public schools by the state. In 1989, the Montana Supreme Court upheld a lower court ruling that declared the public school funding system unconstitutional. The plaintiffs in this lawsuit have put the lawsuit on hold pending further analysis of the recent school funding reforms.

Local

- In 1993-1994, the state had 495 school districts; 133 operating high school districts, 322 operating elementary districts, 31 operating K-12 school districts, and 9 non-operating elementary school districts. While K-12 districts are a recent addition to Montana's organizational structure, administrative responsibilities have been combined for a majority of Montana's elementary and high school districts, through joint boards of trustees, for many years. School districts are governed by a board of elected trustees that operate independently of city or county government.
- Of the 486 operating school districts, 227 districts, with 61 percent of the state's public school population, adopted budgets between the BASE and the maximum general fund budget; 184 districts, with 34 percent of the public school population, had budgets below the BASE budget; and 75 districts, with five percent of the public school population, adopted budgets in excess of the maximum. (When the new school funding structure was adopted by the legislature, there were districts whose adopted budget for the prior year exceeded the statutorily-determined "maximum" budget. These districts were not required to reduce their budgets, rather their budgets are frozen until the legislature approves increases in the per-student entitlements.)
- For the 1993-1994 school year, districts budgeting between the BASE and the maximum budget were able to increase their general fund budgets by up to four percent without voter approval. The Montana legislature has since adopted stricter limitations that require voter approval of any budgetary increases in excess of the prior year's budget. Under Montana school law, voters approve increases in *spending authority* for schools regardless of the source of revenue to fund the increases.
- Property taxes and fees in lieu of taxes are the major source of local district tax revenues.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$449 million
Grants in aid	431 million	
Teacher retirement contributions	18 million	
FICA	0	
Total Local School Revenue		$342 million
Property tax revenue	180 million	
Other local source tax revenue	22 million	
Local source non-tax revenue	140 million	
Total Combined State and Local School Revenue		$791 million
State-Financed Property Tax Credits Attributable To School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94:

Direct State Aid to Districts:	$270.7 million (60.3% of total state school aid).
Guaranteed Tax Base Aid:	$111.8 million (24.9% of total state school aid).

Nature of Program: Foundation and Guaranteed Tax Base. The formula establishes a minimum (or BASE) and maximum general fund budget for each school district based upon the number of students in the district. State funds support the BASE budget and are allocated as direct state aid (i.e. foundation) payments to all districts and as guaranteed tax base aid to supplement levies in eligible districts.

Allocation Units: Direct state aid is allocated through a basic entitlement (distributed to each elementary and high school district regardless of size) and a per-student entitlement based on the the *average number belonging (ANB)* in the district.

For the 1993-94 school year, the average number belonging for each school district derives from an enrollment count taken on October 1, 1992, as reported by the district to the state on the annual Fall Report. Pre-kindergarten and full-time special education students are excluded from the ANB calculation and kindergarten students are included as one-half. To calculate ANB, the enrollment count is multiplied by the sum of 180 school days plus the district's pupil-instruction related (PIR) days. The result is then divided by 180.

Beginning in the 1994-1995 school year, ANB is based on the average of two enrollment counts, one on October 1 and a second count on February 1. Full-time special education students are included in the district's ANB calculation. To calculate ANB, the average of the two enrollment counts is multiplied by the sum of 180 plus the district's pupil instruction-related (PIR) days. The result is then divided by 180.

Local Fiscal Capacity: Equalized assessed property valuation. Montana's property tax system establishes 12 classes of property; a unique tax rate is applied to the market value of each class of property to determine the taxable valuation.

How Formula Operates:

Basic Entitlement and Per-ANB Entitlement.

The budget building process begins with the calculation of a district's basic and per-ANB entitlements. The basic and per-ANB entitlements, along with the district's special education funding, define the maximum general fund budget that a school district may adopt.

The *basic entitlement* is a fixed amount of $18,000 for an elementary district and $200,000 for a high school district. When an elementary district has an approved 7th-8th grade program, the district adjusts its basic entitlement to fund a portion of its basic entitlement at the high school funding rate.

Formula for computing basic entitlement:

Elementary district:

$$\$18{,}000 \times [(\text{K-6 ANB})/(\text{K-8 ANB})] + \$200{,}000 \times [(\text{7-8 ANB})/(\text{K-8 ANB})]$$

High school district: $200,000

The *per-ANB entitlement* varies based on the total ANB of a district. The per-ANB entitlement starts at $3,500 for a K-6 ANB and at $4,900 for a 7-12 ANB and is reduced for each additional student as the size of the district increases. The reduction in the per-ANB entitlement levels out when a district's K-6 program reaches 1,000 ANB and when the secondary program reaches 800 ANB.

Formula for computing per-ANB entitlement:

- Elementary districts with 1,000 ANB or less:

$$\$3{,}500 \times \text{Elem ANB} - [.20 \times (\text{Elem ANB}/2) \times (\text{Elem ANB}-1)]$$

- Elementary districts with more than 1,000 ANB:

$$\$3{,}400{,}100 + [(\text{Elem ANB} - 1{,}000) \times \$3{,}300.20]$$

- High school districts or accredited 7th-8th grade programs with 800 ANB or less:

$$\$4{,}900 \times \text{HS ANB} - [.50 \times (\text{HS ANB}/2) \times (\text{HS ANB} - 1)]$$

- High school districts or accredited 7th-8th grade programs with more than 800 ANB:

$3,760,200 + [(HS ANB - 800) x $4,500.50]

An elementary district without an accredited 7th-8th grade program has a per-ANB entitlement of $3,500 decreased at a rate of $.20 per-ANB for each additional elementary ANB up to 1,000 ANB. For each ANB over 1,000, the per-ANB entitlement is $3,300.20.

An elementary district with an accredited 7th-8th grade program has a per-ANB entitlement of $3,500 for each K-6 ANB decreased at a rate of $.20 per-ANB for each additional K-6 ANB up to 1,000 ANB. For each K-6 ANB over 1000, the district per-ANB entitlement is $3,300.20. For 7th-8th grade ANB, the district per-ANB entitlement is $4,900 per-ANB decreased at a rate of $.50 per-ANB for each additional 7th-8th grade ANB up to 800. For each 7th-8th grade ANB over 800, the district per-ANB entitlement is $4,500.50.

Separate Budget Units. The funding formula provides for grouping pupils into separate budget units for funding purposes when schools within a district are at least 20 miles apart or when conditions exist that would create an unusual hardship for transporting students to another school. A separate budget unit allows a district to budget an additional "basic entitlement," thus increasing the district's state funding and budget authority.

Minimum and Maximum General Fund Budgets.

The minimum general fund budget, or *BASE budget,* of a district is 80 percent of the district's basic entitlement, 80 percent of the district's per-ANB entitlement, and up to 140 percent of the district's special education allowable cost payment.

The *maximum general fund budget* of a district is the sum of the district's basic entitlement, per-ANB entitlement and up to 153 percent of special education allowable cost payments.

If a district's 1992-1993 general fund budget was in excess of its 1993-1994 maximum budget, the district's general fund budget is frozen at its 1992-1993 level.

If a district's 1992-1993 general fund budget was below the BASE budget, the district must reach the BASE budget level by July 1, 1997.

Funding the General Fund Budget.

A district funds its general fund budget from the following sources:

1. Direct state aid equal to 40 percent of the district's basic and per-student entitlement;
2. Special education allowable cost payments from the state;
3. Non-levy revenue and reappropriated funds;
4. Local levies subsidized with GTB aid to fund up to 40 percent of its basic and per-student entitlement and 40 percent above its special education allowable cost payment; and
5. Local levies with no GTB aid for that portion of the general fund budget above the BASE budget.

Non-levy Revenue. The school funding formula requires a district to use prior year actual receipts from non-levy revenue sources as the "best estimate" for anticipating revenue to fund the ensuing year's general fund budget. These prior year amounts must match the amounts reported on the Trustees Financial Summary completed by each school district at the end of a school fiscal year.

Non-levy revenue sources include motor vehicle fees, recreational vehicle fees, out-of-state equipment fees, local government severance taxes and net proceeds taxes paid on oil and gas production, coal gross proceeds taxes, personal property tax reimbursements, corporation license taxes paid by financial institutions, state impact aid, tuition, and investment earnings, and any other non-levy revenue received that year.

Operating and Excess Reserves. At the end of the school fiscal year, a district may reserve a portion of its fund balance as an operating reserve for the following school year. The amount reserved may not exceed ten percent of the final general fund budget for the following school year.

A district may exceed the ten percent reserve limit if the source of the excess reserves is the unexpended balance of any amount received from a protested tax settlement, tax audit, or delinquent taxes. State bonus payments received for consolidation of school districts may also be placed in excess reserves.

Guaranteed Tax Base Aid.

Each school district receives direct state aid for the first 40 percent of its basic and per-ANB entitlements. A district also receives a special education allowable cost payment from the state to fund the general fund budget. The next 40 percent of the basic and per-ANB entitlements plus up to 40 percent above the special education allowable cost payment is the *GTB budget area.* The GTB budget area is funded by funds reappropriated from the prior year, non-levy revenues, district property taxes, and state guaranteed tax base aid.

A district is eligible for guaranteed tax base aid if its GTB ratio is less than the statewide elementary or high school GTB ratio. The district's GTB ratio is the ratio of the district's taxable valuation to its GTB budget area. The statewide GTB ratio is the ratio of the statewide taxable valuation to the total GTB budget areas for all districts. The calculation of these ratios is shown in the following table.

The *statewide guaranteed tax base ratio* for 1993-1994 is calculated as follows:

$$\frac{175\% \times \text{Statewide taxable valuation (Tax Year 1992)}}{\text{(Total direct state aid + 40\% of total special education allowable cost payments)}}$$

The statewide GTB ratio is calculated separately for elementary and high school programs.

A *district's guaranteed tax base ratio* for 1993-1994 is calculated as follows:

$$\frac{\text{District taxable valuation (Tax Year 1992)}}{\text{(District direct state aid + 40\% of the district's special education allowable cost payments)}}$$

To calculate a district's GTB subsidy per mill, the Office of Public Instruction uses the following steps:

1. Multiply the state guaranteed tax base ratio for the elementary or high school district by the sum of the district's direct state aid and 40 percent of its special education allowable cost payment;

2. Subtract the district's taxable valuation; and

3. Divide the result by 1,000 to calculate the GTB subsidy per mill.

If a district is GTB-eligible, each mill levied to fund the GTB budget area is subsidized with state GTB aid. A district must fund its budget with any reappropriated dollars and non-levy revenues before it levies property taxes to fund the GTB budget area.

State Share: The state share of funding for the basic support program is 40 percent of each district's basic and per-ANB entitlement. This 40 percent share is referred to as direct state aid. In addition, districts receive state special education funds to support the district's general fund budget. The BASE budget area not funded by direct state aid or special education funding is the GTB budget area. State GTB aid is provided to low-wealth districts to supplement BASE budget levies. On-the-average, each dollar of GTB aid matches $1 of district property taxes levied to fund the BASE budget.

Local Share: Local monies are used to fund the GTB budget area and the over-BASE portion of the district general fund budget. The first sources of revenue for the GTB budget area are district reappropriated monies and non-levy revenues. The remaining revenue necessary to fund the GTB budget area is generated from local property taxes, which are matched by GTB aid in eligible districts. On-the-average, each dollar levied to fund the BASE budget is matched by $1 of GTB aid. The over-BASE portion of the budget is funded solely with local district revenues.

Weighting Procedures: The per-ANB entitlement, which drives the direct state aid payment, is greater for smaller school districts and for high school ANB. The GTB subsidy per mill is weighted toward smaller school districts. These weighting procedures are described above in How Formula Operates.

Adjustments for Special Factors: There are no additional adjustment factors that are not part of the basic and per-ANB entitlements.

Aid Distribution Schedule: Each district receives ten percent of its direct state aid payment each month in August through October, December through April, June and July. The July payment is the last payment for the school year that ended on June 30. In November and again in May, eligible districts receive one-half of their annual guaranteed tax base aid.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $10.1 million (2.2% of total state school aid).

Description: Districts are reimbursed for the "on-schedule" costs of transporting public school pupils to and from school. The on-schedule costs are determined by a statutory formula that reimburses at a minimum rate of 85 cents per bus mile, with additional funding for a bus with a rated capacity in excess of 45 students. Funding is reduced when the number of students assigned to a bus route is less than one-half of the bus' rated capacity.

A district may levy permissively to fund transportation costs in excess of the on-schedule costs.

State and County Share: The state reimburses districts for one-half of the on-schedule costs on approved bus routes. A countywide levy generates the funding for the remainder of the on-schedule costs. In 1993-94, the state reimbursement of $10.1 million was matched by a county reimbursement to districts of $10.1 million.

Local Share: Any budgeted costs above the state and county reimbursements are the obligation of the local district. For 1993-94, districts budgeted for $ 22.6 million in excess of the $20.2 million from state and county transportation reimbursements.

Extent of Participation: All districts

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

There are no state grants for capital outlay.

Debt Service

Funding in 1993-94: $1 million (less than 1.0% of total state school aid).

Description: The state reimburses eligible districts for a portion of their debt service payments on school bonds sold after July 1, 1991. (July 1, 1991, is the effective date of the Montana Supreme Court ruling declaring the state's school funding system unconstitutional.) A district's eligibility for state reimbursement is determined by the district's mill value per ANB compared to the statewide mill value per ANB.

The first step in calculating a district's school facility reimbursment is to calculate its school facility entitlement. The entitlement is limited to $220 per elementary ANB, $270 per 7th-8th grade ANB if the district has an approved 7th-8th grade program, and $330 per high school ANB. The state reimbursement for school facilities is limited to the lesser of the district's current year debt service obligation for bonds issued after July 1, 1991, or the district's school facility entitlement.

For 1993-1994, the state reimbursement to a district is calculated as follows:

State Reimbursement to District = State Share x Reimbursement Limit for the District x
State Appropriation ÷ Total Costs Eligible for Reimbursement

Definitions:

State Share = [1 – (District mill value per ANB/ Statewide mill value per ANB)];

Reimbursement Limit = the lesser of the district's 1993-1994 debt service obligation or its school facility entitlement;

State Appropriation = $1,000,000, for 1993-1994;

Total Costs Eligible for Reimbursement = the sum for all districts in the state of the state share times the reimbursement limit for each district.

State Share: The state share is calculated for each eligible district and is intended to equalize the yield on property taxes levied to fund debt service obligations. Districts qualified for more state reimbursement than was appropriated by the legislature, forcing OPI to pro-rate the distribution of funds. The state appropriation of $1 million subsidized $3.9 million in debt service obligations for 14 school districts.

Local Share: The local share is the portion of the annual debt service payment not reimbursed by the state. A district uses its state reimbursement to reduce the property tax levy for the debt service fund in the next school year.

Extent of Participation: 14 school districts qualified for and received a state reimbursement for school facilities in 1993-94.

Local Capital Project Financing

Districts may finance capital projects by selling school bonds for up to 20 years and/or by establishing a building reserve to finance a building project on a-pay-as-you-go basis. Both of these financing mechanisms require voter approval.

In order for a school bond to pass, the district must have a voter turnout of at least 30 percent. If the turnout is greater than 30 percent, but less than 40 percent, a supermajority of 60 percent or greater is required for passage of the bond election. If the voter turnout is 40 percent or more, the bond may be approved by a majority of those voting in the election. The election for a school bond may be called by the school board or through a petition process if 20 percent of the district voters petition the school board for the election.

A district may establish a building reserve to levy in annual installments to finance specific projects approved by the voters for up to a 20-year term.

Through the sale of bonds or establishment of a building reserve, a district may indebt itself up to the greater of 45 percent of the district's taxable valuation or 45 percent of the average statewide taxable valuation per pupil times the ANB of the district. In 1993-94, the average taxable valuation per-pupil is $17,990 for an elementary district and $45,820 for a high school district. The state reimbursement for school facilities helps a district meet the higher debt service payments associated with increasing the district's debt limit.

V. TEACHER RETIREMENT

Teacher Retirement and Social Security

Funding in 1993-94: $16.7 million (3.7% of total state school aid).

Description: Each district maintains a separate retirement fund for payment of federal social security and retirement premiums for district employees who participate in the state Teachers Retirement System or the Public Employees Retirement System. Teachers retirement is funded by a countywide levy that is supplemented by state GTB aid in eligible counties.

State Share: In 1993-94, the state contributed 23 percent of teacher retirement costs through guaranteed tax base aid to counties. A county is eligible for GTB aid if the county mill value (the amount of revenue that one mill raises per ANB) is less than the statewide mill value. In eligible counties, the county teachers retirement levy is subsidized with state aid to bring the tax yield per ANB up to the statewide average.

Local Share: Teachers retirement costs are funded with a permissive countywide levy. The levy requirement for all the districts in the county are totaled and a mill levy is assessed against all property in the county to fund the district obligations for teachers retirement contributions. In GTB-eligible counties, the county levy is subsidized with state GTB aid.

Extent of Participation: All districts.

VI. SPECIAL EDUCATION

Special Education Allowable Costs

Funding in 1993-94: $33.8 million (7.5% of total state school aid).

Description: The legislature appropriates funding to the Office of Public Instruction to be distributed to school districts and special education cooperatives for approved allowable special education costs. Students who spend more than one-half of their school time in special education were not included in district ANB counts for 1993-94. Pre-kindergarten special education students are served by public school districts. Approximately $28.5 million is distributed to school districts and $4.2 million to special education cooperatives that provide services to school districts. The remainder of the state appropriation is used to pay for the educational costs associated with students placed in residential treatment facilities.

State Share: If the approved allowable costs exceed the legislative appropriation, each district receives a pro-rated share of the appropriation. In 1993-94, state funding provided less than 70 percent of the approved allowable costs for special education.

Local Share: Districts are responsible for special education costs not reimbursed by the state, including administration and operation and maintenance costs.

Extent of Participation: 359 school districts and 24 special education cooperatives

VII. COMPENSATORY EDUCATION

No state aid.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $149,165 (less than 1.0% of total state school aid).

Description: The Montana Accreditation Standards require school districts to identify gifted and talented students and to provide a curriculum "commensurate with their needs." The state provides supplemental funding to local school districts through a state gifted and talented grant program. School districts apply to the Superintendent of Public Instruction to receive a gifted and talented grant for teacher training and for innovation and continuation of gifted and talented programs. The legislature appropriated $300,000 for state grants for the two-year period including 1993-94 and 1994-95.

State and Local Share: Each district receiving a gifted and talented grant from the state must provide equal matching funds from other district revenue.

Extent of Participation: 79 districts received gifted and talented grants.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

None.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

None.

XIII. LOCAL TAX REVENUE

Property Tax

Montana's property tax system classifies property into 12 property classes: real, personal, net proceeds of nonmetaliferous mines, gross proceeds of metal mines, agricultural lands, timber lands, livestock, farmsteads, rural electric and telephone cooperatives, new industrial, utilities, and airlines and railroads. Each property class has a unique tax rate applied to the market value of the property to determine the taxable valuation. Agricultural land, commercial and residential real property, and timber lands are reappraised on a three year cycle. All other property is reappraised annually. Montana does not use a sales-assessment ratio for adjusting property values after reappraisal.

In 1993-1994, local school districts collected $179.9 million to fund school district budgets. The state and counties collected an additional $211.3 million for school purposes.

Income Tax

No local income taxes.

Other Sources of Local Tax Revenue

School districts receive distributions of fees on property that was formerly in the property tax base, but is now taxed through "flat taxes," with one tax rate applied statewide. These flat taxes, which include revenues from motor vehicle and recreational vehicle fees and from oil, gas, and coal production taxes, are distributed in the same manner as taxes collected from the mills levied against the property tax base.

Tax Credits and Exemptions

The state provides for a graduated, low-income homeowners property tax exemption on the first $80,000 of market value of residential property.

The tax rate applied to new industrial property is three percent of market value compared to the 3.86 percent tax rate applied to other commercial property. Industrial property must be approved by the Montana Department of Revenue as eligible for the new industry classification before it can be taxed at the lower rate. Air and water pollution control equipment and property owned by rural and electric cooperatives are also taxed at the reduced three percent tax rate.

In compliance with the federal 4-R's act, the tax rate on railroad and airline property is adjusted annually to reflect the "equalized average tax rate generally applied to commercial and industrial property."

XIV. TAX AND SPENDING LIMITS

Tax Limits

Montana's local school districts are not subject to tax limitations. The public school funding system is based on spending limits for the district general fund budget.

Spending Limits

In 1993-94, school district general fund budgets could not exceed the greater of four percent of the prior year's budget or four percent of the prior year's budget per ANB times the current year's ANB. Districts whose 1992-93 general fund budgets exceeded the statutory 1993-94 "maximum general fund budget" are frozen at their 1992-93 levels. Districts budgeting below the BASE budget must increase their budgets incrementally to reach the BASE budget level by July 1, 1997. These incremental increases do not require voter approval.

Voter Approval of Budgets

In 1993-94, increases in school general fund budgets were subject to spending limits, but did not require voter approval. (The legislature has since amended the school laws to require voter approval of budgetary increases in excess of the lesser of four percent of the prior year's budget or four percent of the prior year's budget per ANB times the current year's ANB.) If an election fails, a district may hold subsequent budget elections provided the district meets the 40-day public notice requirement and adopts a budget by the second Monday in August.

No voter approval is required for district levies to fund the transportation, tuition, adult education, bus depreciation, or non-operating funds. The building reserve and the debt service fund require one-time voter approval prior to sale of the bonds or establishment of the building reserve. If a bond or building reserve election fails, the district may hold another election subject to the 40-day public notice requirement.

XV. EARMARKED STATE REVENUE

The state has six significant sources of revenue earmarked for public school equalization: a portion of the state collections of individual and corporate income taxes; a 95 mill statewide property tax levy; interest and income from school trust lands; federal royalties distributed to the state for mineral production on federal lands; state coal severance taxes; interest earnings on a constitutionally established coal trust fund; and lottery profits.

XVI. SPECIAL TOPICS

None.

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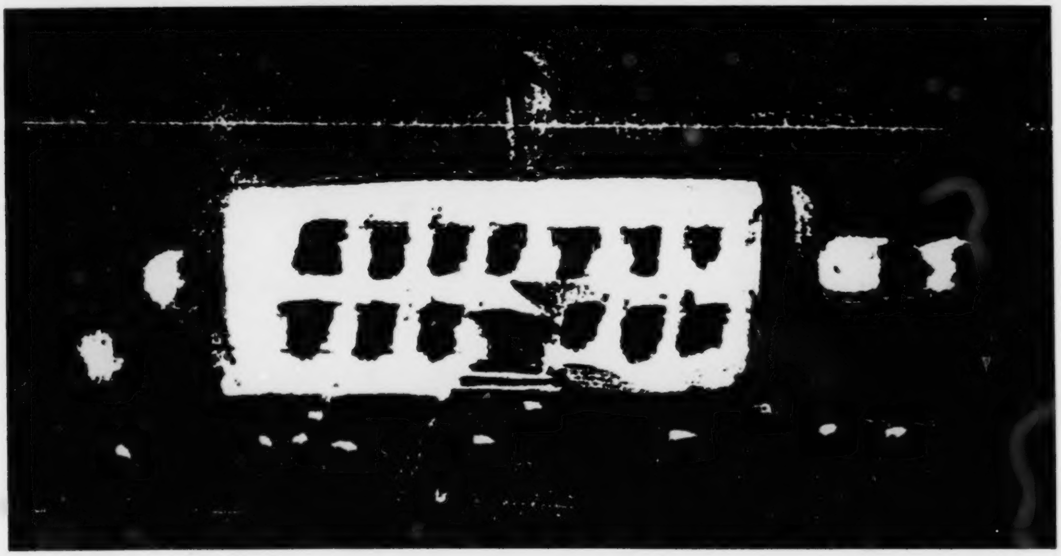
1993-94

Volume Two



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PUBLIC SCHOOL FINANCE PROGRAMS OF THE UNITED STATES AND CANADA

1993-94

Volume 2

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American Education Finance Association

and

Center for the Study of the States
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CONTENTS

Volume 1

List of Tables vi
List of Figures vii
About this Book viii
Acknowledgments ix

User's Guide 1
Where to Find It 7

United States Overview

Overview of School Revenue Patterns 9
Overview of Approaches to School Funding 23
Highlights of State Descriptions 33
Overview of Significant Changes in Basic Support Aid Since 1990-91 65
State-Imposed Limitations on School Taxes and Spending 69

Canadian Overview

Overview of Canadian School Finance Plans 81

State Descriptions

Alabama 89
Alaska 105
Arizona 117
Arkansas 127
California 139
Colorado 157
Connecticut 167
Delaware 179

426

Florida	187
Georgia	199
Hawaii	209
Idaho	219
Illinois	227
Indiana	241
Iowa	253
Kansas	265
Kentucky	279
Louisiana	293
Maine	303
Maryland	315
Massachusetts	325
Michigan	333
Minnesota	347
Mississippi	367
Missouri	381
Montana	387

Volume 2

Nebraska	397
Nevada	411
New Hampshire	421
New Jersey	427
New Mexico	439
New York	451
North Carolina	473
North Dakota	485
Ohio	495
Oklahoma	511
Oregon	521
Pennsylvania	529

Rhode Island 539
South Carolina 547
South Dakota 565
Tennessee 571
Texas 587
Utah 599
Vermont 607
Virginia 621
Washington 633
West Virginia 645
Wisconsin 661
Wyoming 675

Provincial Descriptions

Alberta 683
British Columbia 693
Manitoba 705
New Brunswick 717
Newfoundland and Labrador 719
Northwest Territories 727
Nova Scotia 729
Ontario 735
Prince Edward Island 753
Québec (En Français) 761
Quebec (In English) 767
Saskatchewan 773

State and Provincial Education Department Contacts 783
About the Editors 787

NEBRASKA

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I. GENERAL BACKGROUND

State

- In 1993-94, the state share of general fund revenues for local public elementary and secondary schools was estimated to be approximately 41 percent. (Funds provided to districts through aid programs and for the replacement of property taxes plus dollars appropriated to teacher retirement systems total approximately $556 million. The vast majority of these funds are receipted in school district general funds.) Through the 1980s, state support had actually been decreasing as a proportion of total school revenues. In April of 1990, the Nebraska Unicameral legislature enacted LB1059, the "Tax Equity and Educational Opportunities Support Act." While this legislation contains intent language seeking to achieve and maintain a state support level of 45 percent of the general fund operating expenditures of school districts, this goal has not been met during any of the fiscal years since the bill's enactment. Since the time of enactment, the level of state support has ranged from approximately 40 to 43 percent. *The level of state support for 1994-95 is currently projected to also achieve approximately 41 percent.*

- Since the mid- to late 1980s, there has been extensive litigation related to personal property tax in Nebraska. The litigation has centered on the exemption of many types of personal property that has occurred since the late 1960s (for example, household goods, farm machinery, inventories, etc.). In response to the extensive litigation and corresponding Supreme Court rulings, effective with the 1992 tax year, personal property is taxed as part of the local property tax system using a "net book value" basis. This value is the purchase price of personal property, less accumulated depreciation as determined by a state-established schedule. Personal property that is fully depreciated will not be subject to tax, nor will personal property that is not depreciated at all (such as inventories). In addition, based on an amendment to the State Constitution, beginning with the 1992 tax year, the valuation standard for land used for horticultural and agricultural purposes is 80 percent of the market value.

- Along with implementing the changes in the valuation standards for both personnel property and horticultural and agricultural property, the first affiliated school systems were established beginning with the 1992-93 school year. Affiliation is an on-going association of a Class I district (elementary only district) or portion thereof not a part of a Class VI district (secondary only district) with one or more Class II-V districts (elementary and secondary district) for the purpose of (1) providing a high school program serving the Class I district students and (2) maintaining tax support to finance such programs. The affiliated system interacts with the property tax system. A single K-12 general fund levy is established for all property contained within the system based on the tax request of the Class II-V district plus the tax request, or portion thereof, of the affilated Class I district(s).

Local

- In the 1993-94 school year, there were 692 local school districts in Nebraska, with 280,762 students in grades K-12. Of the 692 districts, 271 were K-12 districts (enrolling 263,979 students), 22 were 7-12 or 9-12 secondary "overlying" districts (enrolling 4,576 students), and 399 were K-6 or K-8 elementary-only districts (enrolling 12,207 students). These districts range in size from ones enrolling no students to Omaha Public Schools, which enrolls approximately 42,500 students. In addition, each of Nebraska's 93 counties has a County Superintendent, serving primarily administrative and regulatory functions related to elementary and secondary schools in the county. Finally, Nebraska has 19 regional Educational Service Units, which are governed and funded similarly to local school districts. Note: the number of school districts in Nebraska has been declining. For example, in 1981-82 there were 1,043 school districts in Nebraska; in 1991-92 there were 777, or 266 fewer than in 1981-82. For 1994- 95, there are 680 districts.

- All public school districts in Nebraska are governed by locally elected school boards with 3, 6, 9, or 12 members. All school districts are fiscally independent, with revenue-raising and expenditure authority vested in its elected board, subject to certain statutory limitations.
- The biggest single source of revenue for school districts is local property tax. Other significant sources of local revenue include city and county fines and license fees, proceeds from a sales tax on public power districts (the only electricity providers allowed in Nebraska), and tuition local school districts charge other districts or parents to educate non-resident students. General state aid, funded through state sales and income taxes and other miscellaneous state general funds, represents the second largest source of revenue, and is distributed through a state equalization formula. Other significant state general-funded support is provided as well, including reimbursement funds for such programs as special education. School districts also receive state general funded replacements for local property tax revenue lost to state-enacted homestead exemptions. Finally, several non-general-fund sources of state revenue are provided to school districts, including portions of an insurance premium tax, and portions of the prorate motor vehicles tax on apportionable fleets of motor vehicles.

Funding Summary, 1993-94

Total State School Support (All Programs)		$537 million
Grants in aid	529 million	
Teacher Retirement contributions	8 million	
FICA	0	
Total Local School Revenue (estimated)*		$765 million
Property tax revenue (estimated)	758 million	
Other local source tax revenue	0	
Local source non-tax revenue (estimated)	7 million	
Total Combined State & Local School Revenue**		$1,302 million
State Financed Property Tax Credits Attributable to School Taxes	$19 million	

*Local school revenues are only estimates. Actual revenues were not available at time of publication.
**Based on estimated local school revenue.

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: $383 million (71.3% of total state school aid).
Funding in 1994-95 is $400.2 million.

Nature of Program: Foundation-type equalization program, contained in the Tax Equity and Educational Opportunities Support Act (LB1059, 1990), Sections 79-3801 through 79-3824, R.R.S.

Allocation Units: Pupils. Average Daily Membership (ADM) plus students for which the district pays tuition to another district or educational agency. Pupil information is taken from the second preceding year unless the district qualifies for a "rapid growth" provision. In such cases, pupil information is taken from the immediately preceding year.

Beginning in 1994-95, the initial calculation of state aid (determined by July for payment during the upcoming school year) is based on a one-day fall membership count plus students for which the district pays tuition to another district or educational agency. This information will be taken from the immediately preceding school year. Adjustments will be made in the subsequent year's payments to reflect a recalculation of the amount due a district based on ADM plus students for which the district pays tuition.

Local Fiscal Capacity: Equalized assessed property valuation plus other revenues. *Beginning in 1994-95, property valuations will be adjusted by the Nebraska Department of Revenue to eliminate the impact of differing assessment practices within the 93 counties.*

How Formula Operates: The equalization program determines fiscal need ("*formula need*") based on actual spending of school districts with comparable-size educational programs, calculates fiscal capacity ("*formula resources*") including both state and local general fund operating revenues available to each district, and generally funds the difference as equalization aid. For districts within an affiliated school system, the "formula needs" and "formula resources" are aggregated to determine "system needs" and "system resources." Equalization aid is calculated for the system based on the difference between "system needs" and "system resources." Unless otherwise noted, data used in determining equalization aid is taken from the second year preceding the year in which aid payments are made. *Data elements from a three year time period will be used beginning in 1994-95.*

Determination of Formula Need. School districts are grouped into "tiers" according to Average Daily Membership (ADM) in grades 1-6 (including kindergarten instructional programs of 1,032 hours or more) and in grades 9-12 (necessary because not all districts in Nebraska have both of these grade groupings, but all of them have at least one of the groups). Average *actual* general fund operating expenditures per ADM for each of these groups is calculated. Individual school districts are then assigned an individual "tiered cost per student" based on the average expenditures per student of the two tiers nearest them in size, mathematically interpolated to maintain a smooth transition across the size continuum (these actual average costs per student tend to be very high for the smallest programs in the state, decrease as size increases to a certain point, and then trends upward again among the very largest school systems in the state). These "tiered cost per student" values, once determined for each grade grouping in each district, are then used to compute a Kindergarten (programs of less than 1,032 instructional hours) and Grades 7-8 value for the district, based on statutory weights. The district's rates for each grade group are then multiplied times the "formula students" in the district to arrive at "formula need." "Formula students" include the Average Daily Membership (ADM) of the district, as well as resident students the district is "tuitioning out" to other districts or service providers. The result is a formulaic representation of "average" *actual* expenditures for a "school district of comparable size," taking into account Nebraska's variety of school district grade ranges. Beginning in 1992-93, a district could request that the "formula students" be taken from the immediately preceding year instead of the second preceding year if the district met statutory growth requirements. For the 1993-94 state aid formula, which reflects actual 1991-92 expenditures, the "tiered cost per student" for grades 9-12 ranged from a high of $8,679.81 to a low of $4,818.98, and the "tiered cost per student" for grades 1-6 ranged from $4,643.24 to $3,518.55. Formula need, statewide, totaled $1.211 billion.

Effective for 1994-95, cost information will still be based on two year old data but "formula students" for all districts will be based on one year old data. The initial calculation and actual payments incorporate a one-day fall membership count. The payments made in subsequent years will include adjustments to reflect the recalculation of "formula students" and "formula needs" based on ADM. The initial statewide "formula needs" for 1994-95 are $1.286 billion. The 1994-95 "tiered cost per student" for grades 9-12 range from a high of $8,810.89 to a low of $5,061.81. For grades 1-6, the "tiered costs" range from $4,947.93 to $3,626.28.

Determination of Formula Resources. There are three main measures of fiscal capacity included in the equalization formula: Other Actual Receipts, Allocated Income Tax Funds, and Yield from Local Effort Rate.

1. Other Actual Receipts. This category includes virtually all general fund revenues actually received by the district, other than local property taxes and general state aid (including allocated income tax funds, which are included

as formula resources separately). These miscellaneous revenue sources include public power district sales tax revenue; local and county fines and license fees; tuition receipts; transportation receipts; interest on investments; other miscellaneous local receipts, but not those from private foundations, individuals, associations, or charitable organizations; special education receipts; state ward of the court and ward of the state payments; apportionment and in-lieu-of school land tax; insurance tax fund receipts; pro-rate motor vehicle license fee receipts; teacher pay enhancement receipts; other miscellaneous state receipts; various noncategorical federal receipts; and Impact Aid (P.L.81-874) receipts *to the extent allowed by federal law.* For 1993-94 state aid payments, a total of $190.6 million in "other actual receipts" from 1991-92 was included in the formula.

The initial 1994-95 calculation includes $184.4 million in "other actual receipts." One of the reasons for the reduction is due to the fact that "other actual receipts" received by nonresident high school tuition funds in 1992-93 were not included in the statewide total. Nonresident high school tuition programs no longer interact with equalization aid, which is impacted by the "other actual receipts" of the district.

Note: Although the statutes governing state aid include as an "other actual receipt" Impact Aid revenues to the extent allowed by federal law, these funds were not held accountable in the 1993-94 calculation. There is currently an appeal before an Administrative Law Judge regarding the treatment of such funds in the 1990-91 calculation.

2. Allocated Income Tax Funds. Commonly referred to as a "rebate," the aid program includes payment to each district of 20 percent of the individual Nebraska income taxes paid by residents of the district. The funds so paid are fully accountable as "formula resources" in the equalization formula. Income taxes paid by residents of elementary-only districts are paid partially to the elementary district of residence and partly to the applicable overlying secondary district, affiliated K-12 district, or the county's nonresident high school tuition fund. In 1993-94, $111.8 million in allocated income tax funds were paid to districts. *Allocated income tax funds total $119.9 million for 1994-95.*

3. Yield from Local Effort Rate. The school district's actual assessed valuation is multiplied times a factor to derive the amount of local property taxes each district could receive at a "typical" tax rate. The factor used is known as the "local effort rate," and is mathematically derived to "balance" the equalization formula. Since total needs are "known" (based on actual expenditures of comparable-sized school districts), and "other actual receipts" and allocated income taxes are "known" (based on actual payments and receipts), and the amount of state equalization aid available to pay is "known" (the amount actually appropriated by the Legislature), this local effort rate is left as the only variable to "balance" the formula by determining at what "typical" rate property taxes would have to be levied to balance the fiscal needs and fiscal capacities of districts covered by the formula. Nebraska levies are expressed in dollars and cents per $100 dollars of taxable valuation, so the "local effort rate" is similarly applied to valuations in hundreds of dollars. Since Nebraska has various legal grade ranges of school districts, this "local effort rate" is prorated for districts providing less than a K-12 education. The local effort rate used in the 1993-94 state aid formula was approximately 1.2452 for a K-12 district, .5582 for a K-6 district, .6870 for a 7-12 district, .7643 for a K-8 district, and .4809 for a 9-12 district. Note that the sum of the K-8 and 9-12 factors equal the K-12 factor, as do the sum of the factors for K-6 and 7-12. In addition to determining the amount of local property taxes each district could receive at a "typical" tax rate from its own valuation, with the elimination of the nonresident high school tuition program, any Class I valuation affiliating with a Class II-V district or newly joining a Class VI district is also taken into consideration in the calculation. This valuation is only measured to the Class II-VI district at the 9-12 factor since it is associating with the district for high school educational purposes. On a statewide basis "yield from local effort rate" totaled $673.3 million.

For 1994-95, an adjusted, and more current, valuation is used for each district. The Department of Revenue provides the adjusted valuation. The adjustment process incorporates sales/assessment ratio data as a means of insuring that for state aid purposes the valuation used is based on the assessment levels (in relation to market value) required by statute. For 1994-95, the adjusted valuation is also based on a 1994 tax year framework. The combination of using adjusted valuation and a more current valuation resulted in a 1994-95 K-12 local effort rate of $1.0914. The statewide "yield from local effort rate" totaled $739.4 million in the initial 1994-95 calculation.

Statewide, the three components of Formula Resources totaled $975.7 million. *The three components of Formula Resources total $1,044 million for the initial 1994-95 calculation.*

Equalization Aid. Each district's, or affiliated system's, "formula resources" are subtracted from "formula need," and the result (if greater than zero) is equalization aid, totaling $270.1 million for 1993-94. In an affiliated system, any equalization aid generated is distributed back to the individual districts based on the needs in excess of resources that they contributed to the system. *A total of $276.6 million of equalization aid is included in the initial calculation of 1994-95.*

There are four additional components of state aid that are exceptions to the basic equalization formula. These four components interact with the funding available for equalization aid.

1. Minimum Effort. A provision in the formula prevents generating state aid to a district in an amount that would be projected to reduce its current general fund levy below 60 percent of the local effort rate. Since the 1993-94 local effort rate was 1.2452 for a K-12 district, the "minimum effort" rate was .7471 for a K-12 district. A total of 65 districts had $4.1 million deducted from their equalization aid pursuant to this provision. *The minimum effort provision affects 35 districts in the initial calculation of 1994- 95 and totals $4.2 million.*

2. Option Hold Harmless. A provision was implemented as of the 1992-93 calculation that provides funds to districts that do not generate equalization aid but which educated Enrollment Option students. For 1993-94, such districts received their "tiered cost per student" minus any categorical Enrollment Option payment received in 1991-92 for each student. For 1993-94, 111 districts received "option hold harmless" totaling $1.9 million. *Beginning in 1994-95, the number of Enrollment Option students are taken from the immediately preceding year instead of the second preceding year. In the initial 1994-95 calculation, "option hold harmless" is calculated for 156 districts (based on 1,128 students) and totals $4.9 million.*

3. Rapid Growth Hold Harmless. A provision was implemented beginning with the 1992-93 calculation, which insures that any district for which one year old student information is used in the determination of formula needs cannot receive less aid than if two year old student information had been used. For 1993-94, no districts were affected by this provision. *The provision has been eliminated as of 1994-95 since student information from the immediately preceding year will be used for all districts.*

4. Hold Harmless. For school years 1990-91 through 1994-95 (the first five years of the new school funding law), no school district (including nonresident high school tuition fund) can receive less in state aid (the sum of allocated income tax funds, equalization aid net minimum effort, option hold harmless, and rapid growth hold harmless) than they received in general state aid under the old formula in 1989-90. A total of 401 "districts" were paid $3.4 million in "hold harmless" in 1993-94. *The "hold harmless" provision affects 286 districts in the initial calculation of 1994-95 and totals $2.9 million.*

To recap, a total of $383 million in general state aid was appropriated for 1993- 94, of which $111.8 million was paid in allocated income tax funds, $270.1 million was generated as equalization aid, from which $4.1 million was deducted for "minimum effort," $1.9 was paid as "option hold harmless," and $3.4 million was paid in "hold harmless."

State Share: As outlined above, the state pays each district Allocated Income Tax funds, Equalization Aid less Minimum Effort deduction, Option Hold Harmless, Rapid Growth Hold Harmless, and Hold Harmless.

Local Share: Local districts' actual property taxing effort does not affect the calculation of state aid, except in the calculation of "minimum effort" deductions. School districts have no minimum or maximum property tax rates. However, because the equalization formula assures that a "typical" level of spending can be supported at a "typical" property tax rate, districts spending higher than "typical" for districts of like size tend to have higher than typical local levies, and those spending less tend to have lower ones. In addition, school districts are subject to lids on their budgeted general fund expenditures, and the lid's allowable growth percentage is greater for lower spending districts (again, as compared to other districts of comparable size) than for higher spending ones.

Weighting Procedures: Weighting factors are used in the determination of costs. Kindergarten (except Kindergarten programs providing 1,032 or more hours of instruction) is weighted at .5; Grades 1-6 (including Kindergarten programs providing 1,032 or more hours of instruction) are weighted at 1.0; Grades 7-8 are weighted at 1.2; and Grades 9-12 are weighted at 1.4. For purposes of determining the local effort rate for districts other than K-12, these same weights are used. For example, a K-8 district is legally responsible for 8.9 (kindergarten at .5 plus five grades at 1.0 plus two grades at 1.2) out of the total 14.5 weighted grades, so the K-8 local effort rate is 8.9/14.5 or 61.3793 percent of the K-12 local effort rate.

Adjustments for Special Factors: As outlined in "Determination of Formula Need", size "tiers" (for two different grade groupings) are used. In addition, the "local effort rate" for various legal grade ranges of school districts is "weighted" based on the proportion of total weighted grades served to total weighted K-12 grades (see "*Weighting by Grade Level*" for more specific information). Finally, for districts in which there are students who reside on Indian land, as defined under P.L.81-874, the "tiered cost per student" values are increased by a factor equal to the percentage of the district's average daily attendance of students who reside on Indian land to the total average daily attendance (as reported by the United States Department of Education in calculating the district's P.L.81-874 payments) multiplied by 25 percent. In addition, as outlined in the section entitled Determination of Formula Need, in 1993-94 rapidly growing school districts were allowed to use one-year-prior student counts in the aid formula instead of two-year-prior counts.

Aid Distribution Schedule: Aid is distributed in ten as nearly as possible equal payments on the last working day of each month September through June. Districts that receive in excess of 25 percent of their budget from federal funds can request payment of up to one-half of the remaining funds to be provided if a financial hardship exists.

Districts Off Formula: Note: Since the 1993-94 state aid formula worked primarily "two years in arrears," the universe of districts for the 1993-94 aid *calculations* was from 1991-92. That year, there were 777 local school districts, plus 93 county nonresident high school tuition funds, so the state aid "universe" for that year was 870. For purposes of state aid, county nonresident high school tuition funds are considered "districts."

1. Districts receiving no equalization aid (because their formula resources, or system resources, equal or exceed their formula needs, or system needs) total 519 out of 870 districts (59.66 percent). Based on changes that were also taking place due to the elimination of the nonresident high school tuition program, no nonresident high school tuition fund could have generated equalization aid in 1993-94. Eliminating the 93 funds from both the count of districts not receiving equalization aid and the total number of districts results in 426 out of 777 actual school district or 54.83 percent.

2. Districts having portions of their equalization aid withheld under the "minimum effort" provision total 65 out of 870 districts (7.47 percent). Since nonresident high school tuition funds could not receive equalization aid in 1993-94 there could be no adjustment for "minimum effort." Eliminating the nonresident high school tuition funds from the total results in 65 out of 777 actual school districts or 8.37 percent.

3. Districts receiving "option hold harmless" total 111 out of 870 districts (12.76 percent). Eliminating nonresident high school tuition funds from the total since these funds could not receive any option hold harmless result in 111 of 777 or 14.29 percent.

4. Districts receiving "hold harmless" total 401 of 870 districts (46.09 percent).

   Note: All school districts receive their allocated income tax funds regardless of equalization status. The amount of these funds can result in a district not receiving equalization aid but still receiving total aid (in this case, allocated income tax funds) that exceed their total 1989-90 state aid, and therefore generating no "hold harmless" payment. Similarly, it is possible for a district to generate equalization aid, but still generate less total aid than they received in 1989-90, so a district can receive both equalization and hold harmless aid in the same payment year. In 1993-94, there were 46 district which received both "equalization aid" and "hold harmless" funds. Finally, in no case can the "minimum effort" withholding reduce a district's aid below its 1989-90 "hold harmless" threshold.

III. TRANSPORTATION

Special Education Transportation

Funding in 1993-94: $10.3 million (1.9% of total state school aid).

Description: Districts are reimbursed for 90 percent of the allowable cost of transporting eligible children, ages 5-21, with disabilities (districts transporting eligible children below the age of five are reimbursed with federal funds) (79-3322 R.R.S.).

State and Local Shares: The state funds 90 percent of the allowable costs, and the local district assumes the remaining cost.

Extent of Participation: 310 local districts, or 44.8% of the total.

Enrollment Option Transportation

Funding in 1993-94: Approx. $100,000 (less than 1% of the total state school aid).

Description: Districts that educate Enrollment Option students (see Section XVI) who qualify for free lunches are eligible for reimbursement for transportation expenses (either for reimbursements made by the district to parents for their transportation expenses or costs the district incurred in actually providing the transportation) at a statutorily calculated rate of 39.1875 cents per mile for one trip each day for the mileage by which the one-way distance exceeds three miles (79-490, 79-3410, 81-1176 R.R.S.).

State and Local Shares: State law provides for the proration of payments if the appropriation is not sufficient to fund the claims submitted. If such a situation occurs, a deficit appropriation may be requested in order to fully fund all claims at a subsequent date.

Extent of Participation: 213 students, or 2.79% of the 7,640 total students participating in Enrollment Option in 1993-94. *Note: Since participation in the Enrollment Option program continues to grow, it is likely that the required funding for Enrollment Option transporation will also increase.*

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Generally, state school aid is not provided for capital outlays. However, several funding programs do provide funds for certain capital outlays: the In-Lieu-Of School Land Tax and Homestead Exemption programs (see Sections X and XIII) do provide state funds to the various capital outlay funds detailed below. The majority of funds provided, however, are for general fund purposes. In addition, certain capital outlays are provided for by the General Fund. Finally, the Nebraska Energy Office provided $605,531 to 35 local school districts in 1993-94 in the form of energy grants and no-interest or low-interest energy loans.

Local Capital Project Financing

Capital outlays and related debt service are funded exclusively through local revenues derived from Bond Funds, Special Building Funds, and Environmental Hazard Abatement/Accessibility Barrier Elimination funds. In addition, for school years 1993-94 through 1999-2000 school districts may utilize the Property Tax Reimbursement Fund for purposes of raising tax dollars to cover the reimbursement of property taxes to a taxpayer if the repayment is required by a final order of a court, the State Board of Equalization and Assessment, or the Tax Commissioner.

Bond Funds. Local school bond issues are submitted to the electors of a school district or affiliated school system, and a simple majority of those voting is required for passage (10-702 R.R.S.). However, certain classes of school district are subject to a statutory limit on school bonds equal to 14 percent of the actual valuation of all property in their district. In 1993-94, 143 local school districts levied Bond Funds. In an affiliated school system, the grades 9-12 portion of a K-12 district's bond levy may be applied to the valuation of the entire affiliated school system as opposed to the valuation of just the K-12 district.

Special Building Funds. Local school districts may, by a 55 percent majority vote of legal voters voting at any annual or special meeting of the district, levy a special annual tax for capital outlays of not to exceed 17.5 cents per $100 of valuation, for a term not to exceed ten years (79-607, 79-422 R.R.S.).

Districts other than elementary-only (K-12 districts and secondary-only districts) may, without an election of the voters but by action of the board of education, *annually* establish such a capital outlays fund from the proceeds of a levy, not to exceed 14 cents per $100 of valuation (79-547.04 R.R.S.).

In 1993-94, 278 districts levied Special Building Funds.

Environmental Hazard Abatement/Accessibility Barrier Elimination Funds. Local school boards may designate particular environmental hazard abatement projects (typically asbestos abatement) or accessibility barrier elimination projects (typically in complying with the American's with Disabilities Act) to be funded for up to ten years by a levy, not to exceed 5.2 cents per $100 of valuation (79-4,207 R.R.S.). Beginning in 1993-94, such projects within a K-12 district that is part of an affiliated system may be specified as related to grades K-8 educational purposes and grades 9-12 educational purposes. In such systems, the K-8 portion is levied against only the valuation of the K-12 district. The 9-12 portion is levied against all valuation within the affiliated system. In 1993-94, 65 local school districts reported levies for K-8 Environmental Hazard Abatement/Accessibility Elimination Funds and 63 districts reported levies for 9-12 Environmental Hazard Abatement/Accessibility Elimination Funds. Note: Not all 63 districts that reported levies for 9-12 purposes were part of an affiliated system. Some nonaffiliated K-12 districts or high school only districts chose to report split levies.

Property Tax Reimbursement Fund. Local school boards required by a final order of a court, the State board of Equalization and Assessment, or the Tax Commissioner to reimburse property taxes to a taxpayer may request taxes to be levied in an amount necessary to fund the reimbursement. The taxing authority of such funds may only apply to fiscal years 1993-94 through 1999-2000. This separate fund was established due to the various state-wide requirements to repay property taxes that resulted from the extensive litigation related to the personal property tax structure. In 1993-94, 81 school districts reported Property Tax Reimbursement Fund levies.

V. TEACHER RETIREMENT

Funding in 1993-94: $7.7 million (1.4% of total state school aid).

Description: Nebraska law provides for a defined benefit plan administered by the Public Employees Retirement Board for all school employees, certificated and non-certificated, in the state, except those employed by Class V school districts. The only Class V school district is Douglas County School District 001, commonly known as Omaha Public Schools. Class V school districts have a separate, but similar, defined-benefit retirement system (79-1032 through 79-1060.01 R.R.S.).

State aid is appropriated to the two retirement systems — "School Retirement System of the State of Nebraska" (79-1501) and "School Employees Retirement System of Douglas County School District 001" (79-1032). These state funds are primarily used for the payment of service and formula annuities; no state retirement system funds are provided directly to the local school districts.

Members of the State system contribute a percentage of their total compensation, which is then "matched" at 101 percent by their employer from local district general funds. The member contribution percentage for the 1993-94 school year was 7.73 percent. (This includes a factor of .3 percent for purposes of establishing a reserve for cost of living adjustments.) State law requires annual adjustment of the contribution percentage by the Public Employee Retirement Board upon recommendation of an actuary (79-1501 through 79-1566 R.R.S.).

State and Local Shares: The Class V school district retirement system includes a special property-taxing authority with a levy limit of seven cents per $100 of taxable valuation (79-1052). In addition, the supplemental teacher salaries program detailed in Section X includes a portion for employer's retirement contributions (79-3505). Otherwise, all local school district employer's contributions are taken from school district general funds.

Extent of Participation: All school districts employing eligible individuals are required to participate one of the two programs.

Social Security

Local school district employer share of FICA is not provided directly by the state.

VI. SPECIAL EDUCATION

Funding in 1993-94: $89.4 million (16.6% of total state school aid).

Description: For children, ages 5-21, local school districts are reimbursed for 90 percent of the "allowable excess cost" for services and programs for children receiving more than three hours of service per week, and are reimbursed for 80 percent of the "allowable excess cost" for services and programs for children receiving not more than an aggregate of three hours of service per week. Children below the age of five receiving special education services are paid for with federal funds (79-3301 through 79-3365 R.R.S.).

State and Local Shares: Districts assume the costs not reimbursed as outlined above. In addition, insufficient appropriations can result in prorated payments of the specified amounts, but the legislature has always fully funded deficit requests for the special education program.

Extent of Participation: 590 local districts, or 85.3% of the total.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

None.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Help Education Lead to Prosperity Act
(Supplemental Teacher Salaries)

Funding in 1993-94: $6.9 million (1.2% of total state school aid), of which $6.7 million went to local school districts and the remainder was paid to Educational Service Units and state-operated schools *Total funding for 1994-95 is $8.4 million.*

Description: Districts receive funds to supplement "teacher" (certificated staff other than administrator) salaries. Districts generate funds on a formula that weights teacher full time equivalencies (FTEs) based on degree level: teachers with a master's degree are weighted 1.2 as opposed to 1.0 for all other teachers. Once the appropriation has been distributed to districts based on their share of the state total weighted teacher FTE in the immediately preceding year, individual local districts and their teachers negotiate the distribution of the funds to individual teachers. The district is legally bound to use such funds only for the pay to teachers and the district's share of retirement contributions and federal social security. (79-3501 through 79-3511 R.R.S.). If the appropriation to the program is in excess of $15 million per year a "performance-based" distribution mechanism is triggered for the portion of the appropriation exceeding $15 million. (This mechanism has not been triggered since the time it was placed in law.)

State and Local Shares: This program is entirely state funded, and reduced state appropriations simply produce reduced salary enhancements to teachers, as the law provides that teachers retain no ongoing contractual rights to payments received under the Act (79-3508 R.R.S.).

Extent of Participation: All local districts reported "teachers" for the 1992-93 school year. (In 1992-93, there were 21 districts contracting all students or not holding session. These districts did not report any staff.)

Wards of the Court

Funding in 1993-94: $.8 million (less than 1% of total state school aid) provided to local school districts. Funds for educational purposes are also provided to entities other than local school districts.

Description: Except for students placed in foster family homes, when a student who is a ward of the state or a ward of any court is placed in a public school district other than the district in which they resided at the time they became a ward, or is placed in any institution which maintains a special education program approved by the Department of Education, the cost of their education and any required transportation is paid by the state under rules and regulations prescribed by the Department of Social Services (79-445 R.R.S.).

State and Local Shares: The state pays the full cost of students determined to be eligible.

Extent of Participation: 14 local districts, or 2.0% of the total.

Insurance Tax Fund

Funding in 1993-94: $13 million (2.3% of total state school aid).

Description: Sixty percent of the money deposited into the Insurance Tax Fund is distributed to school districts based on their annual census of school-age children. The monies deposited into the Insurance Tax Fund are generated through a tax on the gross premiums received by insurance companies for business transacted in Nebraska (77-907 to 77-917 R.R.S.)

Extent of Participation: All local districts in which children ages 5-18 are reported in the census. (1993-94 100%).

State School Fund

(State Apportionment and In-Lieu-Of School Land Tax)

Funding in 1993-94: $23.8 million (4.3% of total state school aid).
Apportionment: $19.6 million
In-Lieu-Of: $4.2 million, of which approximately $3.9 million was for general funds

Description: The primary source of revenue to this fund is the lease of state-owned "school or saline land" deeded to the state as part of the Homestead Act (there are still more than 1.5 million acres of school land in Nebraska). The fund also receives revenue from the investment of the proceeds of sales of such land in the past. Finally, the fund is augmented with various state-level fines, penalties, and unclaimed property. The fund is used first to provide payments in lieu-of-taxes to school districts containing school lands ($4.2 million in 1993-94), with the remainder ($19.6 million) distributed as "state apportionment" on a "per school-age child" basis. Nebraska school districts are statutorily required to conduct an annual census of children aged birth through 20 years, with the counts of children ages 5 through 18 (350,447 in June, 1993) used as the basis of apportionment payments. In 1993, the statute governing the determination of in-lieu-of school land tax payments was amended. The amendment resulted in the application of an 80 percent factor to the last appraised value of the school land in determining the payment. The 80 percent factor is reflective of a prior constitutional amendment to value horticultural and agricultural land at 80 percent of market for tax purposes (79- 1302 and 79-1303 R.R.S.).

Extent of Participation: All local districts in which children ages 5-18 are reported in the census received Apportionment funds. (1993-94 100%). Only those districts, or affiliated school systems, in which school land lies received in-lieu-of school land tax.

Prorate Motor Vehicle

Funding in 1993-94: Estimated to be approximately $2.8 million (less than 1.0% of total state school aid) for all taxing funds of school districts. Note: in 1993-94, approximately $4.6 million was provided to county government for distribution to all property-taxing subdivisions. In 1993-94, school district taxes accounted for approximately 60.93 percent of all taxes levied.

Description: All property-taxing subdivisions including school districts receive payments from the state's Motor Vehicle Tax Fund, which is made up of payments made by the owners of fleets of apportionable vehicles in-lieu of registration. The funds are distributed to county treasurers for redistribution to property-taxing subdivisions in the proportion that each subdivision's levy is to all levies within the county (60-301 to 60-305.16 R.R.S.).

Extent of Participation: Because the funds are distributed through county government, and are often paid along with other property tax proceeds, reliable detail information by school district is not available. However, all school districts (except those with no levies) receive funds from this program.

Other Miscellaneous "Categorical" Programs

In addition to the programs detailed above, approximately $492,000 was provided for Child Nutrition programs.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Generally, Nebraska does not provide public funds for nonpublic schools. One program does exist, however, which provides for public school districts to loan textbooks to children who are enrolled in private schools that are approved by the State Board of Education.

Textbook Loan Program

Funding in 1993-94: $162,525

Description: Public school districts receive state funds to purchase textbooks that are loaned to children who are enrolled in approved private schools. Districts are not obligated to spend any money for the purchase and loan of such textbooks other than funds specifically appropriated by the Legislature (79-4,118 R.R.S.).

State and Local Shares: No local share is required.

Extent of Participation: 41 local public districts, or 5.9% of the total.

XII. EARLY CHILDHOOD EDUCATION

In 1993-94, Nebraska had four state-funded early childhood pilot projects (79-3701 to 79-3703 R.R.S.). Each pilot project involves a collaboration between the local school district and a local community agency. These four projects were awarded a total of $384,000.

There are no other state-funded pre-kindergarten programs in Nebraska ("below-age-five" special education programs are federally funded).

XIII. LOCAL SCHOOL REVENUE

Property Tax

The biggest single source of revenue for school districts is local property tax. Based on the 1993-94 school district valuations and levies, approximately $758 million of General Fund property taxes were requested for 1993-94. Property taxes are budgeted and requested by the elected local school boards, but are levied, collected, and distributed by county government, who also determine the taxable value of most property in their counties (the exception is centrally assessed property such as railroads, pipelines, etc.).

Nebraska's constitution requires that "taxes shall be levied by valuation uniformly and proportionately upon all real property and franchises as defined by the Legislature except as otherwise provided in or permitted by this Constitution."

The following assessment standards were in place for 1993-94:

- Real property, except agricultural and horticultural land, was to be valued at 100 percent of the actual market value.
- Agricultural and horticultural land was to be valued at 80 percent of the actual market value.
- All depreciable tangible personal property, except licensed motor vehicles, was to be valued at net book value.
- Motor vehicles were to be valued at the current market value.

Compliance with the assessment standards is monitored annually by the State Board of Equalization (including the Governor, Secretary of State, Auditor of Public Accounts, State Treasurer, and Tax Commissioner), which has power to increase or decrease the actual valuation of property in any county or tax district to achieve equalization.

Income Tax

None.

Other Local Revenue Sources

Other significant sources of local revenue include city and county fines and license fees; proceeds from a sales tax on public power districts; and tuition and transportation fees local school districts charge other districts or parents to educate non-resident students. Specific amounts for these other revenues are not currently available for 1993-94. Based on historical data, the fines and license fees and the sales tax on public pover districts average between $10 and $15 million each. Tuition and transportation fees has tended to exceed $7 million annually.

Tax Credits and Exemptions

Homestead Exemption

Funding in 1993-94: Approximately $18.8 was distributed on behalf of all taxing funds maintained by school districts. (3.4% of total state school aid)

Description: Property-taxing political subdivisions, including school districts, receive funds appropriated by the state and distributed by county treasurers to offset property tax losses from homesteads exempted under state law. Generally, up to $35,000 of homestead actual value can be exempted from property taxation on the basis of age, household income, veteran status, and certain disabilities (77-3501 to 77-3524 R.R.S.). It should be noted that the exempted valuation *is* included in the valuation base of subdivisions when levies are set. LB902, 1994, resulted in changes to this program which will affect school districts beginning with the 1994-95 school year.

Virtually all school districts actually receiving property taxes are likely to receive homestead exemption funds, but because they are paid by the state to counties, who then redistribute them to the subdivisions, including school districts, in their county (often along with other property tax proceeds), reliable detail information by school district is not available.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Effective in 1990-91, school districts were placed under a spending limitation for *general fund* purposes. Prior to that, levy limits of 14 cents per $100 of valuation on Special Building Funds (votable, by a 55 percent majority of voters voting on the question, to 17.5 cents); and a limit of 5.2 cents for Environmental Hazard Abatement funds existed. These levy limits continue to exist.

Spending Limits

The Tax Equity and Educational Opportunities Support Act, first in effect for the 1990-91 school year, imposes limitations on the general fund budget of expenditures of all school districts in Nebraska. In addition, beginning in 1991-92, before a district could access the growth limitations contained in the Act, a 75 percent majority of the school board had to vote to exceed the prior year's general fund budget of expenditures. If the board votes to exceed the prior year's budget, then the growth limits apply to the non-special education portion of the budget. (The special education portion is allowed to change based on whatever level is needed. Special education budget authority can not be used for any nonspecial education expenditures.) The non-special education portion may be increased by the "basic allowable growth rate," which is a range of percentages established by the Legislature. For 1993-94, school districts spending at or above the average of districts of comparable size (using the size tiers described in Section II) had a basic allowable growth rate of 4 percent. Districts spending at least 20 percent below "average" had a basic allowable growth rate of 6.5 percent, and districts spending between average and 20 percent below average were assigned a rate between four and 6.5 percent using a straight line transition. In addition, full budget authority is granted to expend funds received from "special grants" as defined by the State Board of Education, and exclusions are allowed for new or expanded state or federal programs, increasing enrollments, increased building operation and maintenance costs in districts with new facilities, compliance with Commission of Industrial Relations orders, and compliance with court-ordered final judgements. Special provisions allow a school board to add 1 percent to the basic allowable growth rate by a 75 percent majority vote of the board, and an increase of any amount can be submitted to the district's voters for approval. School districts are not required to budget the maximum allowable budget to prevent loss of future budget authority; there is a specific "unused budget authority" carryover provision. Finally, limitations were imposed on the growth in budgeted reserves, and statutory maximum reserve thresholds are based on the size of the district.

Note: The requirement for 75 percent of the school board to vote to exceed the prior year's budget of expenditures before accessing any of the provisions through which growth in the budget may be obtained is only in effect through the 1994-95 school fiscal year.

Voter Approval of Budgets and Bond Issues

Local school district budgets are adopted by action of elected, fiscally independent school boards following publicized hearings. Traditionally, the only direct voter involvement *required* by law has been acceptance of school bond issues, which requires a simple majority of qualified voters voting in the bond election.

XV. EARMARKED STATE REVENUE

The Tax Equity and Educational Opportunities Support Act of 1990 dedicates 20 percent "of the projected state income tax receipts" to "the use and support of the public school system to provide support for the distribution of state aid to districts. . . ." In addition, the Act provides for a direct "rebate" of 20 percent of all state resident individual income taxes to the district in which the taxpayer resides.

The Nebraska constitution perpetually dedicates "for common school purposes" all funds derived from the "sale or leasing of sections number sixteen and thirty-six in each township in this state," which is the "school land" granted under the Homestead Act. The funds, supplemented by various earmarked state-level fines and penalties, are distributed as in-lieu-of school land tax and apportionment, and are described in Section X.

Finally, 60 percent of the proceeds of the Insurance Tax Fund, described in Section X, are dedicated to Nebraska school districts.

Note: LB849 of 1991 created the State Lottery Act, and provides an earmark of at least 25 percent of the funds remaining after prizes and operating expenses have been paid. Of such funds, 49.5 percent is dedicated to the Education Innovation Fund, which will be "allocated by the Governor through incentive grants to encourage the development of strategic plans by school districts for accomplishing high performance learning and to encourage schools to establish innovations in programs or practices that result in restructuring of school organization, school management, and instructional programs which bring about improvement in the quality of education" (9-812 R.R.S.). In 1994-95, the first year in which funds were made available to school districts, approximately $7.6 million in available grants will be paid over a three-year period.

XVI. SPECIAL TOPICS

Enrollment Option

Funding in 1993-94: Funding provided through the basic support program (see Section II).

Description: Beginning with the 1990-91 school year, students may attend school in a district other than the one in which they reside.

Note: Unless districts meet specific rejection criteria related primarily to capacity and/or desegregation or if the application is not made by the statutory deadline (deadline may be waived by districts), participation in the program is manditory for both resident and option (educating) districts.

State and Local Shares: Funding provided through the basic support program (see Section II).

Extent of Participation: In 1993-94, 7,640 students participated in the program. As of the beginning of November 1994 the reported participation level for 1994-95 was approximately 8,200.

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I. GENERAL BACKGROUND

State

- The Nevada Plan, adopted by the state legislature in 1967, is the current means used to finance public education. It is a minimum foundation program.
- The State Distributive School Account, established to make payments to local school districts through the Nevada Plan, is funded by General Fund appropriation, 2.25-cent sales tax on out-of-state sales, federal mineral land lease income, interest from the Permanent School Fund and investments, and an annual slot machine tax.
- The 1979 Legislature approved a property tax relief package that reduced the total levy for school districts from $1.50 ($0.70 mandatory and $0.80 optional) to $0.50 per $100 of assessed valuation. The 1981 Legislature increased the local school support tax from 1 percent to 1.5 percent of taxable sales.
- As a result of the 1981 tax shift, which substituted sales tax for property tax, local governments were hit hard when sales tax collections failed to meet estimates during the 1983 national recession. In response to the revenue shortfall, the 1983 Legislature increased the property tax rate for local school districts from $0.56 to $0.75 per $100 of assessed valuation and placed the extra $0.25 in the Nevada Plan formula to offset state general funds.
- In 1991, the Legislature increased the reliance of local school districts on sales tax by raising the local school support tax from 1.5 percent to 2.25 percent on taxable sales, effective October 1, 1991, which reduced state general fund appropriations.

Local

- The state has 17 fiscally independent school districts. All of Nevada's school districts are coterminous with its counties.
- Major resources available to a local district outside of the basic support guarantee include an additional $0.50 per $100 of assessed valuation (total mandatory levy is $0.75) on real property, revenue from the motor vehicle privilege tax, federal impact aid monies, and other miscellaneous sources.

Funding Summary, 1993-94

Total State School Aid (All Programs)[1]		$776 million
Grants in aid	776 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Tax Revenues[2]		$235 million
Property tax revenue	197 million	
Other local source tax revenues	28 million	
Local source non-tax revenue	10 million	
Total Combined State and Local School Revenue		$1,011 million
State Financed Property Tax Credits Attributable to School Taxes	0	

[1] Total State School Aid includes $361.4 million generated by the Local School Support Tax (see Section XV). Nevada treats this tax as a mandatory local revenue contribution towards the basic support program. For purposes of this summary it is treated as state revenue returned to county of origin to support education. Total State School Aid also includes $35.5 million for the Class-size Reduction Program and $1 million for the Elementary School Counselors Program.

[2] The $361.4 million Local Support Tax revenue has been subtracted out of total local school tax revenue and incorporated into Total State School Aid.

II. THE BASIC SUPPORT PROGRAM

The Nevada Plan

Funding in 1993-94: $739.7 million (95.3% of total state school aid).
This amount includes $361.4 million in Local School Support Tax.

Nature of the Program: Minimum Foundation Program (NRS 387.121).

Allocation Units: Pupils. Weighted count of pupils enrolled in the public schools on the last day of the first school month of the school year for which apportionments are calculated.

Local Fiscal Capacity: Equalized assessed property valuation and Local School Support Tax.

How Formula Operates: The Nevada Plan provides a basic per-pupil guarantee, equalized in order to provide for variations in educational costs and local wealth. The basic support guarantee figure for each district is determined by law each biennium. The calculation of basic support is stipulated in NRS 387.1233. Each school district is assigned a basic support guarantee per-pupil, and the total amount of dollars needed to provide this guarantee is a joint responsibility of the state and local school district. Additionally, a plan to provide state aid for special education program units was incorporated into the Nevada Plan in 1973.

Total Guaranteed Support = (Total Pupil Count x Basic Support Guarantee per-pupil)
+ Special Education Units

Total Pupil Count: See weighting by grade level below.

Special Education Units: See Section VI — Special Education.

Basic Support. Basic support represents that portion of the state guarantee consisting of equalized basic support, transportation, and a wealth equalization factor. Each local school district's basic support guarantee is unique to that district. The three factors considered by the state legislature in determining the per-pupil basic support guarantee for each school district are described below:

1. *Equalized Basic Support.* This part of the basic guarantee is calculated for each district by applying a district ratio to the statewide, per-pupil monetary amount established as the foundation level of basic support. The ratio for each district is determined as follows:

   - First, teacher allocations are determined from counts of pupils in each school attendance area within a local school district in accordance with tables adopted by the State Board of Education. The tables allow for increased teacher allocations in school attendance areas where pupil population is sparse and for a lesser number of teacher allocations in densely populated areas. This is based on the premise that where pupil population is sparse, group service units must be maintained for small numbers of pupils, while in more densely populated areas, group service units can be maintained more efficiently by serving larger numbers of pupils in a group.

   - In addition to teacher allocations, each district is granted allocations for other certified staff on the basis of pupil enrollment within a school attendance area. Like teacher allocations, other certified staff allocations are determined from tables adopted by the State Board of Education and similar consideration for granting additional allocations to sparsely populated areas is included in the calculations.

   - Once teacher and other certified staff allocations are determined, pre-established monetary amounts are applied to pupil counts for kindergarten and handicapped 3- and 4-year-old children (weighted at 0.6), elementary and secondary pupils and total certified employee allocations (teacher and other certified staff combined), which makes possible the determination of a weighted monetary value per-pupil for each local school district.

   - Finally, a statewide average monetary value per-pupil is determined by adding the values for all districts and dividing the total by the statewide enrollment. The statewide monetary value per-pupil is assigned a ratio value of 1.000 and each district is assigned a ratio value equivalent to their respective monetary value per-pupil as compared to the statewide amount.

2. *Wealth Equalization.* Additional apportionments per-pupil for wealth equalization are provided in the basic support guarantee to assist those districts whose total projections of revenue, when increased by the allocations for equalized support and transportation contained in the biennial request, are less than expenditure projections for each year of the biennium.

3. *Transportation.* See Section III — Transportation.

For 1993-94, the basic support guarantee per-pupil for each school district was:

Carson City School District	$3,577
Churchill County School District	$3,877
Clark County School District	$3,224
Douglas County School District	$3,480
Elko County School District	$3,795
Esmeralda County School District	$6,329
Eureka County School District	$100*

Humboldt County School District	$3,759
Lander County School District	$3,811
Lincoln County School District	$5,818
Lyon County School District	$4,141
Mineral County School District	$3,966
Nye County School District	$3,904
Pershing County School District	$4,426
Storey County School District	$5,563
Washoe County School District	$3,069
White Pine County School District	$4,342
Statewide Average Basic Support	$3,320

*Due to the prosperity of some large gold mines located within its boundaries, the Eureka County School District receives more revenue from mandatory local revenue sources than is needed to cover the cost of educating the district's 309 students. The Legislature has, therefore, "manufactured" a very low amount of basic support per-pupil to eliminate the need for state aid to the district. State law provides that a school district receive the difference between the total basic support guaranteed by the Legislature and local revenue.

The Nevada Plan — An Example: The following example demonstrates the guarantee process based on the enrollment and revenue for a hypothetical Nevada school district. In addition, revenue outside the guarantee process is also shown to illustrate the total resources available to a district in its operating budget.

Basic Support Guarantee	**District Example**
1. Number of Pupils (weighted enrollment*)	5,500
2. x Basic Support Guarantee Per Pupil	$3,000
3. = Guaranteed Basic Support	$16,500,000
4. + Special Education Allocation (35 units @ $26,000 per unit)	$910,000
5. + Adult High School Diploma Program (capped amount determined by Department of Education)	4,000
6. = Total Guaranteed Basic Support	$17,414,000
7. – Local Resources (inside formula)	
2.25 cent Local School Support (sales) Tax	($7,500,000)
25 cent Property Tax	($2,000,000)
8. = State Responsibility	$7,914,000
Resources in Addition to Basic Support (outside formula)	
9. 50 cent Property Tax	$4,000,000
10. Motor Vehicle Privilege Tax	$200,000
11. Federal Revenues	$150,000
12. Miscellaneous Revenues	$10,000
13. Opening Fund Balance	$150,000
14. Total Resources in Addition to Basic Support	$4,510,000
15. Total Resources Available (line 6 + line 14)	$21,924,000

State Share: The state share of a district's basic support is equal to the district's total guaranteed support minus the mandatory local share (inside formula).

Local Share: The mandatory local share is equal to the 2.25-cent Local School Support (sales) Tax plus a property tax of $0.25 per $100 of assessed valuation.

Each board of county commissioners is required to levy a tax of $0.75 per each $100 of assessed property valuation for the support of public schools within the county. Twenty-five cents of the $0.75 rate is considered part of the basic support formula and is deducted from basic support to determine state aid. The remaining $0.50 is considered outside the basic support formula. The $0.75 property tax levy is mandatory in all districts, and school districts may not levy additional property tax for education except for capital outlay (see Section IV — Capital Outlay and Debt Service).

Weighting Procedures: In calculating basic support guarantees, "pupils" refers to the count of pupils enrolled in grades 1-12 and pupils in ungraded special education classes on the last day of the first school month of the school year, plus .6 of the count of pupils enrolled in kindergarten or in programs for handicapped 3- and 4-year-olds on the last day of the first school month of the school year.

A general fund appropriation line-item provides funding for adults enrolled part time in courses necessary to receive a high school diploma, which is the way adult high school diploma programs in the state's prisons have been funded since 1987.

Adjustments for Special Factors: If the pupil count is less than the pupil count obtained for the immediately preceding school year, the larger pupil count must be used in computing the basic support.

Aid Distribution Schedule: Generally, Nevada uses a quarterly disbursement method; monthly disbursement occurs only when the state controller finds that the state general fund is at a level that is deemed as not sufficient to pay the other appropriations. Typically, disbursements are made in four equal payments; however, if a district experiences a three percent increase in enrollment after the second school month, an additional two percent of basic support is provided to that district in the fourth quarter allocation. If a district experiences a six percent increase in enrollment after the second school month, a four percent increase in basic support is provided to that district in the fourth quarter allocation.

Districts Off Formula: The Eureka County School District, which received no state aid in 1993-94, is essentially treated as "off formula." Due to the prosperity of the county's gold mines and the sparsity of its population, the district's fiscal capacity is high (2.6 percent of the state's total assessed valuation in 1993-94), but its enrollment is low (only 0.14 percent of the state's total enrollment — 309 pupils [weighted]).

III. TRANSPORTATION

Funding in 1993-94: $56 million (7.2% of total state school aid).
Included in Basic Support Program.

Description: The basic support guarantee includes an allowance for transportation based on expenditure records of the local school districts for the last two completed school years. Expenditures for transportation equipment acquisition and replacement for both of the years are tabulated and divided by two to yield an average annual rate for the two years. Expenditures for salaries and operating expenses for the most recent year are added to the average annual rate for equipment acquisition and replacement to give a total amount of transportation expenditures eligible for the support calculation. The total for each district is divided by the enrollment for the most recent year giving the rate of expenditures per-pupil for transportation.

State and Local Shares: Eighty-five percent of this rate of expenditure per-pupil becomes part of the basic support rate for the first year of the biennium, which is increased by a predetermined inflation rate, and then increased again by the same rate for the second year of the biennium.

Extent of Participation: All 17 school districts.

Note:In the 1990-91 report, expenditures for salaries and benefits were not included in transportation costs; only transportation operating and equipment expenditures were reported.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Nevada school aid is not provided for financing capital outlay.

Local Capital Project Financing

Capital outlay needs of local districts may be met from: (a) the sale of bonds, (b) the gradual accumulation of money in a building and sites fund, (c) a "pay-as-you-go" tax levy, and (d) a tax on residential construction in smaller school districts.

Bonds. The issuance of general obligation bonds may occur for specified capital projects and must be approved by the registered voters of the particular county school district. Bonds must be issued within six years from the date of the election authorizing the issue, and the total bonded indebtedness of a county school district must not exceed 15 percent of the total assessed value of the county.

Building and Site Funds. The Board of Trustees of each school district shall establish a fund for capital projects and may accrue money in the fund for stipulated purposes for a period not to exceed 20 years.

Pay-as-you-go/Authority to Levy a Tax. With the approval of the majority of the registered voters of a county, the board of county commissioners in school districts with fewer than 25,000 pupils may levy a tax of not more than $0.75 per $100 assessed valuation, and in districts where enrollment is 25,000 pupils or more, the board of county commissioners may levy a tax of not more than $0.50 per $100 assessed valuation.

Other. The board of trustees of any school district whose population is less than 35,000 may request that the board of county commissioners impose a tax on residential construction in order to construct, remodel or make additions to school buildings. If the county commissioners approve, they notify the Nevada Tax Commission. Upon approval of the Tax Commission, the county commissioners may impose the tax that must not exceed $1,000 per residential unit.

V. TEACHER RETIREMENT

The Public Employees Retirement System (PERS) is a state-defined benefit pension program. Teacher retirement contributions are totally employer paid in Nevada. In 1993-94, local districts paid a total of $101.2 million to the PERS on behalf of its employees. These payments are made from school district general funds. Employer-paid contributions are 18.22 percent of employees' gross salaries.

VI. SPECIAL EDUCATION

Funding in 1993-94: $40.9 million (5.3% of total state school aid).
Included in Basic Support Program.

Description: The legislature declares a basic support guarantee amount for each program unit established by law for each school year. In 1993-94, the value of one unit was $26,208. Program units were designed to cover the teacher personnel costs and were originally based on average teacher salaries. Currently, unit funding covers only a portion of the costs for special education in the State of Nevada. Unit funding is provided in addition to basic support for each special education pupil.

The Nevada Plan recognizes that many pupils are unable to make satisfactory progress in regular graded programs of instruction. When such pupils are identified, local school districts must make provisions as necessary to provide special instructional services for them. Upon establishment and operation of such programs, local school districts are reimbursed on a unit basis for the number of units operated up to the limit authorized by law.

The unit is assigned a monetary value that is reimbursed to the local school district as a result of a final report filed with the State Department of Education indicating the number of units operated during the school year. A "Special Education Program Unit" is defined by law as meaning an organized instructional unit that includes full-time services of licensed personnel providing a program of instruction in accordance with minimum standards prescribed by the State Board of Education.

The number of units established for each local school district is based on the previous year's allocation of units and any additional units are distributed on the basis of need. Unused allocations of special education programs are reallocated to other school districts by the State Department of Education after giving first priority to special education programs with statewide implications.

Beginning in fiscal year 1993-94, school district must account separately for all money received and expended for instruction and related services for children with disabilities and the gifted and talented.

Out-of-State Placement. When an appropriate special education program is not available in a disabled pupil's home school district, the school board of the home school district may apply to the State Superintendent of Public Instruction for an out-of-district placement. The state pays educational, residential, and transportation costs of pupils with disabilities placed in programs outside of their home school districts. Funding for such placements comes from the state general fund and a portion of the discretionary funds available to the state under P.L. 101-476, Individuals With Disabilities Education Act.

To increase utilization and stimulate development of in-state facilities for autistic and emotionally disturbed children and those with traumatic brain injuries, the 1991 Legislature amended provisions of the law relating to out-of-district placements of children with disabilities and transfers approximately $1 million each year from the Department of Education to the Department of Human Resources. The Department of Human Resources, with the approval and under the supervision of the Superintendent of Public Instruction, provides special education programs and related services to any child suffering from autism, emotional illness, or a traumatic brain injury. The Superintendent of Public Instruction provides services to pupils with other disabilities when an appropriate educational program is not available in the home school district.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

There is no separate, direct state appropriation for gifted and talented education in Nevada; however, some special education program units are used by local school districts for programs for gifted and talented students.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Class-Size Reduction Act

Funding in 1993-94: $35.5 million (4.6% of total state school aid).

Description: The Class-size Reduction Act of 1989 established a program designed to systematically reduce the student-teacher ratios in the state beginning with the primary grades. In 1993-94, $35.5 million was provided to maintain pupil-teacher ratios of 16 to one in first and second grades and certain kindergarten classes in schools with high percentages of "at-risk" pupils.

The state, through general fund appropriations and estate tax revenue, provides funding to cover salaries and fringe benefits of teachers hired to meet the required ratios. Facilities and operating costs are the responsibility of the local school districts. First consideration is to be given to schools and classes with pupils most at risk of failure.

School districts may not receive funds without first filing a plan for class-size reduction with the Department of Education, and these funds must not be used to adjust district-wide salary schedules or to settle or arbitrate disputes or contract negotiations.

The law's preamble states it is the Legislature's intent that schools achieve a student-teacher ratio of no more than 15 students per teacher or 30 students per two teachers in primary grade classrooms where core curriculum is taught; however, funding has been based on pupil-teacher ratios of 16 to one since 1991-92. School districts are allowed necessary discretion to reduce class-size in the manner most appropriate to their respective districts and, under existing law, may request from the State Board of Education variances from required ratios for good cause, including a lack of financial support specifically set aside for reducing student-teacher ratios.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

There is no provision for state aid to private schools with the exception of those serving special education pupils for which there are no services available in the public schools or in the state. Aid to parochial schools is specifically prohibited by the Nevada Constitution (Article 11, Section 10).

XII. EARLY CHILDHOOD EDUCATION

There is no provision for state aid for early childhood with the exception of those programs serving special populations as stipulated in the law. Special Education unit funding and general fund revenue is utilized in meeting these needs

XIII. LOCAL SCHOOL REVENUE

Property Tax

The following depicts local school property tax resources. Estimates for FY 1993-94 are:

25 cent property tax per $100 assessed valuation	$ 65.6 million
50 cent property tax per $100 assessed valuation	131.1 million

The State Department of Taxation is charged with conducting an assessment ratio study of all 17 counties, alternating nine counties in one year and eight counties in the next. The study is used to determine the ratio of the assessed value of each class of property in each county (other than centrally assessed property) to the assessed value of comparable property in the remaining counties and the taxable value of that type of property within the county. Upon completion of the study, the Department publishes a report that provides a comparison of the latest ratios for the total property of each county and for each class of property in each county, a determination as to whether each county is assessing property in a correct and timely manner, and a summary for each county of any deficiencies discovered during the study. When deficiencies are discovered, the board of county commissioners of the county with the reported deficiency must agree to remedy the deficiency or show by means of an outside appraiser that the deficiency does not exist.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

The following depicts other sources local revenue. Estimates for FY 1993-94 are:

Motor Vehicle Privilege Tax	$26.5 million
Franchise Tax	1.2 million
Federal Revenues (unrestricted)	4.0 million
Miscellaneous Revenues	9.5 million

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

The state of Nevada sets limits on the aggregate tax rates that can be levied on property. The maximum rate set by the Nevada Constitution is $5 per $100 of assessed valuation, but state statutes further limits the maximum rate to $3.64 per $100 of assessed valuation.

For operations, school districts are limited to a property tax levy of $0.75 per $100 of assessed property valuation. This levy is mandatory. *The 1991 Legislature approved a measure that allows a school district, with the approval of the voters of the county, to levy an additional property tax of 3 cents per $100 for "enhancing the safety and security of the public schools within the school district." This tax will "sunset" after FY 1996-97.* Property tax levies for debt service, "pay-as-you-go" financing of capital outlay, or safety and security are separate from the 75-cent operating rate but must be under the $3.64 maximum rate.

Spending Limits

Nevada school districts are not subject to any state imposed spending limits beyond the statutory requirement for a balanced budget.

Voter Approval of Budgets and Bond Issues

School district budgets in Nevada are adopted by a majority vote of all governing board members after the requirements timely notice/publication and public hearing are met. There is no provision for direct voter approval. The issuance of bonds for capital projects require a referendum of the registered voters of a particular school district. A simple majority of the voters voting on the issue is needed for approval. The number of times a district seeks voter approval for a bond issue is not limited by statute. Two districts placed an issue before the voters in 1993-94, with a winning percentage of 66 percent referenda statewide.

XV. EARMARKED STATE REVENUE

The following state revenue is earmarked by law for school aid:

Local School Support Tax: The Local Support Tax is a 2.25 cent sales tax levied by the state for the support of schools. The state returns the tax to county of origin. Although the tax is not levied at the local level, the tax is considered to be local revenue.

The Local Support Tax Law, enacted in 1967, stated that the Legislature found an increased contribution by local districts was required for the support of schools. Because the Legislature determined the increase could not be provided through a property tax increase, a sales tax was approved, and "to avoid imposing unfair competitive hardships upon merchants in the several counties," the tax was set at the same rate in each county and also on goods purchased outside the state for use in the state. The act further justified the mandatory and uniform rate for taxing sales by comparing it to the mandatory property tax levy the sales tax was designed to supplement.

Estate Tax: The 1989 Legislature created the Trust Fund for Class-size Reduction and directed that the half of estate tax revenue that is public (K-12) education's share be placed in the trust fund and used only for class-size reduction. The other half of estate tax revenue is earmarked for higher education and is placed in an endowment fund.

XVI. SPECIAL TOPICS

Does not apply.

NEW HAMPSHIRE

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I. GENERAL BACKGROUND

State and Local

- New Hampshire has 234 cities and towns, which are organized into 176 school districts. The 1993-94 public school enrollment in these districts was 104,876 elementary, 32,401 middle/junior high, and 48,083 high school students, for a total of 185,360. Many of these 234 municipalities are single town districts (132) where the municipality boundary is coterminous with the school district. The remaining towns are organized into 30 cooperative school districts, also known as regional school districts. These districts represent two or more towns that have "joined together" to share resources in order to provide educational services to a region. There are also 14 small school districts that do not operate any schools. These districts send their students to nearby districts and pay a per pupil tuition fee for each child enrolled in the school. For administrative purposes, the 176 school districts are organized into 67 School Administrative Units (SAUs). An SAU is the administrative component and employs a superintendent of schools. Some SAUs are comprised of a single district; others have two or more school districts that share administrative services and the superintendent's office.

- Each school district in New Hampshire is governed by a school board that is composed of elected members generally serving a two or three year term on the board. The board adopts an annual budget, which is presented to the district voters at an annual school district meeting. School boards do not have the power to tax; they present a budget for approval at the school district meeting. Voters at the meeting are all legal residents of the town (or towns) comprising the school district. Voters at the district meeting have the authority to approve a final budget figure. They can approve the budget presented by the school board or alter it and adopt a higher or lower budget. The school board then makes decisions on where budget cuts (if any) are to be made. The voter-approved budget figure is taken to the State Department of Revenue Administration, which determines a local property tax rate necessary to raise the appropriate sum of money. The only exceptions to this are ten city school districts. In nine of these cities the school board submits its budget to the city council for approval. One city, New Hampshire's capital, has a fiscally independent elected school board that adopts a final school budget with no approval required by a legislative body. In summary, the school board of a district is responsible for setting policy and governing the district. It adopts an annual budget that must be approved by a majority of residents of the district at a local school district meeting. This budget then dictates a local property tax rate to raise the necessary revenue to operate the schools.

- New Hampshire, more than any other state in the nation, relies upon the local property tax to fund the local education program. Statewide, 90 percent of the revenue for schools come from local property taxes, seven percent from the state in the form of school aid, and three percent from federal sources. This results in significant disparities among districts in terms of their ability to raise money for schools. The heavy reliance on local property taxes means the ability to raise money is directly related to the property wealth of the district. Those districts with lower property values tax themselves at a higher rate and raise less money than districts which have higher property value. The following table illustrates the impact of this heavy reliance on the local property tax rate.

Pupil Group Summary of School Finance Data

The state's school districts were divided into three equal pupil groups, ranked low to high according to equalized valuation per pupil. Property-poorer districts are in Pupil Group 1, property-wealthier districts are in Pupil Group 3.

Summary Table Of Weighted Means For Grouped School Districts
(except where noted)

Pupil Group	1993 Equalized Valuation Per Pupil	1993Average Daily Membership in Residence	1993 School Tax Rate Per $1,000 Equalized	1993 Local School Revenue Per Pupil	1992-93 Cost Per Pupil in Attendance	1994-95 Foundation Aid Per Pupil
1	$ 218,490	59,689.7	$ 20.09	$ 4,389	$ 4,395	$ 608
2	$ 288,238	63,353.7	$ 19.15	$ 5,519	$ 5,017	$ 150
3	$ 549,452	52,783.6	$ 11.37	$ 6,249	$ 5,675	$ 25
State Average	$ 342,977	175,827.0 (Total)	$ 15.60	$ 5,355	$ 4,994	$ 270

59% live in districts that spend *below* the state average cost per pupil.
74% of all students live in districts that are *below* the state average equalized valuation per pupil.
80% of all students live in districts that have *above* the state average equalized school tax rate.

Funding Summary, 1992-93

Total State School Aid (All Programs)		$89 million
Grants in aid	84 million	
Teacher retirement contribution	5 million	
FICA	0	
Total Local School Tax Revenue		$912 million
Property tax	912 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local Revenue		$1,001 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

These figures do not include a $20.7 million source of revenue to school districts. The source of this revenue, credited to school districts by a past-practice provision, is the state business profits tax. Approximately $20.7 million from this tax is credited by the state Department of Revenue Administration as a direct revenue to school districts and is used to lower the total school assessment upon which the local property tax rate is set.

II. THE BASIC SUPPORT PROGRAM

Foundation Aid

Funding in 1992-93: $47.1 million (52.8% of total State school aid).

Nature of Program: Foundation Program.

Allocation Units: Pupils. Weighted pupils are used to estimate a total cost ofeducation assuming the state average per pupil cost. State aid is then a percent of this total cost based upon the fiscal capacity of the community as determinied below (see state share).

Local Fiscal Capacity: Assessed property valuation, school tax rate, and personal income.

How Formula Operates: Foundation aid is the major state aid to education program. It is New Hampshire's only equilization aid program. The current statute was passed in 1985 and attempts to address both taxpayer equity and student equity.

Student equity is measured by weighted pupil counts for students in each district, with weights assigned to various programs based upon cost, e.g., special education, vocational education, etc.

Taxpayer equity is measured by the fiscal capacity of the town: its property wealth, income wealth, and school tax effort. The local town's actual measure on each variable is compared to the state average. To the extent a town is below average in property wealth, below average in income wealth, and above average in tax effort, the town will be considered more needy for state aid.

State Share: An attempt is made to fund an "average" district at a targeted eight percent of operating expenditure. To the extent a district is below average in wealth, it will receive more than eight percent in state foundation aid and those districts that are above average in wealth receive less than eight percent in state aid. In each year of its existence, the funds appropriated for foundation aid have been less than the amount needed given the target of eight percent for an average district. A mechanism exists in the formula to reduce each town's entitlement so that the total funding equals the state appropriation.

Local Share: Districts are responsible for remaining costs.

Weighting Procedures: See above.

Adjustments for Special Factors: None.

Aid Distribution Schedule: The Department of Education notifies the school districts of the estimated amount of foundation aid to which they are entitled for the following fiscal year by November 1. Payment of foundation aid is made in approximately three equal payments per year during the fiscal year for which such aid is due.

Districts Off Formula: In 1992-93, 163 towns received some foundation aid (range was $211 to $2.9 million) and 71 towns did not qualify for any foundation aid at the funded level.

III. TRANSPORTATION

See Section X — Vocational Education Tuition and Transportation.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Building Aid

Funding in 1992-93: $14.7 million (16.5% of total state school aid).

Description: Building aid is available to districts for renovation and construction of new facilities to accommodate growth in enrollment. School districts are eligible to receive as aid an amount of money equal to a certain percent of their annual principal payments. A single town school district receives 30 percent of its annual principal payment in the form of state aid. As an incentive for consolidation, regional (or cooperative) school districts receive an extra five percent for each additional town in the district, starting at 40 percent for a district consisting of two towns. This percent is "capped" at 55 percent for districts with five or more towns.

Vocational School Buildings

Funding in 1992-93: $6.1 million (6.8% of total state school aid).

Description: New Hampshire operates a regional vocational education program for grades 11-12. School districts in each region can tuition their students to the regional vocational education center for a part-time program. The state supports this program by constructing the facility (or area to be used for vocational education purposes) as well as providing aid for the tuition and transportation costs incurred (see Section X). In 1992-93, $6.1 million in state funds was spent on vocational education facilities construction.

Local Capital Project Financing

The issue of bonds or notes by any school district is authorized by a ballot vote with approval by two-thirds majority at a school district meeting. To receive building aid, the district must submit plans, specifications, cost and purchase estimates in writing to the state board before January 1 of each year in order to be eligible for school building aid in the fiscal year following the year of submittal.

V. TEACHER RETIREMENT

Funding in 1992-93: $4.9 million (5.5% of total state school aid).

Description: The New Hampshire retirement system requires an employee contribution of five percent as well as an employer contribution. The employer (school district) rate for 1992-93 was 2.79 percent of salary. However, the state contributes 35 percent of this rate, leaving a local district rate of 1.81 percent plus an administrative fee of .18 percent for a total district contribution of 1.9935 percent. The total state share was $4.9 million with districts paying $8.8 million.

VI. SPECIAL EDUCATION

Special Education Catastrophic Aid

Funding in 1992-93: $8 million (9.0% of total state school aid).

Description: Special education catastrophic aid addresses the cost of severely handicapped students. This aid is based on a total expenditure made on an individual student. After spending 3.5 times the estimated state average cost per pupil for the preceding school year, districts are entitled to receive in state aid 80 percent of subsequent costs up to a maximum of ten times the state average cost per pupil. All remaining costs after this expenditure level is exceeded are reimbursed in full by the state. Thus 80 percent of the costs in excess of 3.5 times the state average and all costs in excess of ten times the state average are reimbursed by the state.

VII. COMPENSATORY EDUCATION

No state aid.

VIII. GIFTED AND TALENTED EDUCATION

No state aid.

IX. BILINGUAL EDUCATION

No state aid.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education Tuition and Transportation Aid

Funding in 1992-93: $2.6 million (2.9% of total state school aid).

Description: New Hampshire operates 20 regional vocational education centers for grades 11-12. The state supports this program by paying for the construction of any designated vocational facility or area used for vocational purposes (see Section IV) and providing aid to those sending districts for the tuition as well as transportation costs incurred. The state will help pay tuition and transportation costs associated with full- or part-time students attending programs at designated vocational centers or designated vocational education courses at other comprehensive high schools, whose residence is in a district where the high school of normal attendance does not offer a similar vocational education course. Tuition payments are made to the receiving district and transportation is reimbursed to the sending district. State support for vocational students consists of funding 75 percent of the prorated tuition cost for sending a student to a vocational program, as well as 8¢ per mile travel reimbursement for daily round trip transportation to and from the receiving school. In 1992-93 the state funded $2.1 million in tuition and $0.5 million in transportation.

Other Programs

Funding in 1992-93: $5.8 million (6.5% of total state school aid).

Description: Several smaller programs exist that provide aid to school districts. In 1992-93 these included:

Program	*Appropriation*
Child Benefit Services	2,640,000
Driver Education	557,829
School Improvement Program	450,000
Spec. Educ. Regional Demo. Programs	1,790,820
Other	360,000

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

No state aid.

XII. EARLY CHILDHOOD EDUCATION

No state aid.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax that funds schools. In 1992-93, it generated $912.2 million. Local tax rates are set after a simple majority of voters at an annual school district meeting adopt a budget. Local community assessments, which vary widely among towns, are then examined and taken to the State Department of Revenue

Administration. Any revenue to the district, including the school portion of the business profits tax (described earlier) is then deducted from the adopted budget and a local property tax rate is set.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Voter Approval of Bond Issues

A school district may vote to issue bonds and put itself in debt for two or more years by a two-thirds majority vote at a school district meeting. The debt incurred annually is part of the total school assessment upon which the local tax rate is set.

XIV. TAX AND SPENDING LIMITS

The legislative body is the final authority on total allowable expenditures. The governing body (school board) adopts an annual budget that is presented to the district voters at an annual school district meeting. A school district budget is adopted and the district may not spend more than that authorized by the legislative body. The adopted budget approved by the legislative body may be more, or less, than that proposed by the governing body (school board). A provision in New Hampshire law exists that, if adopted by the local district, can empower a budget committee to help develop and set a school district budget. In any district electing this provision of New Hampshire law, the total amount appropriated at any annual meeting shall not exceed by more than ten percent the total amount recommended by the budget committee.

XV. EARMARKED STATE REVENUE

All profits from New Hampshire's various sweepstakes/lottery programs are designated for education, specifically earmarked to fund the foundation aid program. In 1993, the New Hampshire Sweepstakes Commission gross revenue was $106.5 million. Of this total revenue, $52.9 million was paid out in prizes, $16.3 million was used for operating expenses, and $37.3 million was the net to education, distributed through foundation aid. Total foundation aid that year was $47.1 million, with sweepstakes revenue funding $37.3 million, or 79 percent of the total foundation aid distribution.

XVI. SPECIAL TOPICS

Charter Schools: The New Hampshire legislature is currently considering proposals that would establish charter schools, operated and managed by a board of trustees and approved by the state board of education as a nonprofit enterprise. A charter school would be a discrete and autonomous legal entity as though it were a school district, yet would be exempt from all state regulations and requirements. All charter schools would be open enrollment schools. The proposal also establishes statewide open enrollment, permitting the parents or guardians of any New Hampshire resident child to choose any public school that accepts students residing outside that school's normal enrollment area.

NEW JERSEY

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In 1990, the State of New Jersey adopted a new school funding system. The new system, known as the Quality Education Act (QEA), represented the culmination of more than a decade of effort by many in education to reform New Jersey's school funding system. The QEA was implemented for the 1991-92 and 1992-93 school years. In July 1994, the State Supreme Court held the QEA unconstitutional based on its failure to assure parity of regular education expenditures between the special needs districts (poor urban school districts) and the more affluent districts (wealthy suburban school districts). The State must adopt a new school funding law by September 1996 to become effective by the 1997-1998 school year and that achieves substantial equivalence of expenditures per pupil for "regular education" along with a provision for the special educational needs of students in special needs districts. While awaiting the court's decision the legislature adopted an interim law, The Public School Reform Act of 1992, for the 1993-1994 school year. In order to properly represent New Jersey's funding system, all data and descriptors contained in this overview represent funding in the 1993-94 school year under the Public School Reform Act of 1992. Data and descriptors relating to other years will be specifically noted.

I. GENERAL BACKGROUND

State

- The state provided approximately 41.2 percent of the revenues (includes all local, state, and federal funds) for public schools in the 1993-94 school year. This compares with 42.2 percent in 1992-93, 42.9 percent in 1991-92, 38.0 percent in 1990-91, 39.8 percent in 1989-90, and 42.9 percent in 1988-89.
- State funds for public schools are appropriated from the general fund (sales taxes, general business taxes, motor vehicle taxes, public utility taxes, etc.) and the property tax relief fund (income tax).
- The state funds for public schools are supported for the most part by the property tax relief fund. In 1993-94, the total state appropriation for public schools was $4.908.3 billion, with 79.9 percent coming from the property tax relief fund and 20.1 percent from the general fund.
- The QEA contained several noteworthy provisions as described below:
    1. The total amount of QEA school aid was determined by a formula linked to the average annual percentage increase in state per-capita personal income over the four years preceding the budget year.
    2. A local school district's capacity to support its schools was based upon two factors weighted equally — the district's property wealth and its aggregate income.
    3. Local district spending was limited through state determined budget caps. These budget caps could only be exceeded if a district obtained a waiver from the Commissioner of Education or from its voters.
    4. The designation of 30 special needs school districts. Under a State Supreme Court mandate these districts were determined to require additional spending to address their special needs. The QEA provided additional aid for these districts, and allowed these districts to increase annual spending at a rate that was intended to allow them to achieve spending parity with the wealthiest districts within the state.

- The QEA was originally designed in anticipation of the New Jersey Supreme Court ruling in the case of *Abbott* v. *Burke*. The plaintiffs in this case, representing children from four urban school districts, charged that state school funding did not comply with the constitutional provision that all children have a right to a "thorough and efficient system of free public schools." The court's decision, in June 1990, concluded that the existing system of funding public schools did not provide enough money to poor urban school districts and ordered that spending parity must be assured between poor urban districts and the most affluent districts. Litigation continued in the *Abbott* v. *Burke* case relative to the state's implementation of the court's mandate until July 1994, when the most recent decision was handed down. The court has maintained jurisdiction until a new law is established.

Local

- There are 580 fiscally independent school districts, 8 county special services districts, 21 county vocational schools, and 10 educational services commissions in the state.
- Property tax is the only source of local tax revenue to support schools.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$4,908 million
Grants in aid	4,135 million	
Teacher retirement contributions	381 million	
FICA	392 million	
Total Local School Revenue		$6,588 million
Property tax revenue	6,588 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$11,496 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

The Public School Reform Act of 1992

Funding in 1993-94: $2,538.2 million (51.7 % of total state school aid).

Nature of Program: Foundation. Non-special needs districts received 104 percent of their 1992-93 school year funding and special needs districts received 109.42 percent of their 1992-93 school year funding under the Public School Reform act of 1992.

Allocation Units: Pupils. Weighted resident enrollment of pupils in programs as of October 15, 1991.

Local Fiscal Capacity: Equalized property valuation and aggregate income based upon the data applicable for the 1992-1993 school year.

How The QEA Formula Operated: In order to calculate how much state foundation aid a district received, the state first determined an appropriate overall spending level — the maximum foundation budget.

The Maximum Foundation Budget. The maximum foundation budget was based on a district's enrollment and a basic amount of money determined by the state as necessary to provide a quality education for one elementary school student, called the foundation amount. This foundation amount for the 1992-93 school year was $6,742 per student. Because costs vary for educating students in different grades and programs, the foundation amount was multiplied by the following foundation weights to compensate for these differences:

Grade and Program Category	*Foundation Weight*	*Weighted Foundation Amounts 1992-93*
Full-Day Kindergarten or Preschool	1.00	$6,742
Half-Day Kindergarten or Preschool	0.50	3,371
Grades 1-5	1.00	6,742
Grades 6-8	1.10	7,416
Grades 9-12	1.33	8,967
Adult High School	0.50	3,371
County Vocational School	1.33	8,967

These weighted foundation amounts were multiplied by a district's resident enrollment to calculate its maximum foundation budget. A district's resident enrollment reflects the number of students present on the last school day prior to October 16 of the pre-budget year.

Also included in a district's maximum foundation budget was a facilities component that provides funds for school facilities maintenance and capital outlay. This amount was $113 for each student in 1992-93.

Because the state paid each district's share of pension and social security costs in 1992-93, the maximum foundation budget was reduced by the amount of state pension and social security aid paid on behalf of a district's resident students in these years.

State Share: A district's state foundation aid was the difference between a district's maximum foundation budget and its local fair share. A district's state foundation aid was reduced if the amount of foundation aid would cause the district to exceed its budget cap.

Local Share: The state calculated a district's local fair share based on its property wealth and aggregate income; these two factors were weighted equally. For all districts, local fair share was calculated according to the following equation:

$$\begin{gathered}.5 \times \text{district equalized valuation} \times \text{property value multiplier} \\ + .5 \times \text{district income} \times \text{income multiplier}\end{gathered}$$

The property value and income multipliers were determined by the state. The 1992-93 property value multiplier was .0121 and the income multiplier was .0492. Also, an adjustment was made in districts where income levels significantly exceeded the state average property values.

Weighting Procedures: See How Formula Operates.

Adjustments for Special Factors:

Special Needs Districts

In response to the State Supreme Court's determination that low-wealth urban districts had special needs that required additional spending, the Quality Education Act designated 30 school districts as special needs districts. Foundation levels in these districts were five percent higher for each grade level than other districts.

Local fair share was determined differently for special needs districts. In 1992-93, the local fair share for these districts was calculated by multiplying the property value by .0116, which was the Statewide average equalized school tax rate for the pre-budget year. However, for the 1993-1994 school year, special needs districts could tax at their local fair share amount for the 1992-1993 school year or their 1990-91 tax levy, whichever was less.

In order to fulfill the July 1990 Supreme Court mandate that spending parity with the wealthiest districts be achieved by 1995-96, budget caps for special needs districts were calculated differently from other districts. An "equity spending cap" was calculated for each special needs district. This cap was intended to assure that the required spending parity was achieved by the 1995-1996 school year. In 1992-93, equity spending caps ranged up to 20 percent.

Extent of Participation: In 1993-94, 384 districts received foundation aid.

Transition Aid

Funding in 1993-94: $85.6 million (1.7 % of total state school aid).

Description: Transition aid was provided to districts in the same amount received under the Quality Education Act for the 1992-1993 school year. Under the QEA, transition aid was provided to phase in the impact of that law over four years. Transition aid made up the difference between a district's 1990-91 base state aid amount, inflated by 6.5 percent, and its comparable 1991-92 aid amount. Districts received the full amount of the difference in 1991-92. Transition aid was scheduled to be phased out at a rate of 25 percent each year, so that by the 1995-96 school year, transition aid was to be eliminated. In 1992-1993 districts received 75 percent of the amount received in 1991-1992.

Extent of Participation: In 1993-94, 265 districts received transition aid.

Districts Off Formula: 30 Special Needs Districts and Transition Aid Districts

III. TRANSPORTATION

Funding in 1993-94: $263.8 million (5.4 % of total state school aid).

Description: Transportation aid was provided by multiplying the amount received in 1992-1993 by 101.535 percent. In 1992-1993 the state provided transportation aid to local districts to help support the cost of transporting students to and from school. Pupils who were eligible for transportation aid included elementary pupils (K-8) who lived more than two miles from school, secondary (9-12) pupils who lived more than 2.5 miles from school, and all special education pupils requiring services.

State Share: In 1992-1993, this aid amount was calculated according to the number of students eligible for transportation and the average number of miles traveled in each district. Because transportation costs vary by geographic area, density, and district size, each county was categorized as "high cost" (exceeded the statewide average cost by more than 15 percent), "very high cost" (exceeded the statewide average cost by more than 85 percent), or "other," to account for cost differences.

Three formulas were added together to calculate state aid for transportation. The first calculated aid for regular pupils using one set of constants and weights. The second calculated aid for special education pupils using a different set of constants and weights. The third formula adjusted for district density and size.

1. Regular public and nonpublic transportation aid = (pupils eligible for transportation x constant) + (pupils x distance x mileage weight).

2. Special education transportation aid = (special education pupils transported x special education constant) + (pupils x distance x special education mileage weight).

3. Density and Size transportation aid = total pupils transported x [(population density x density factor) + (total resident enrollment x district size multiplier)].

Extent of Participation: 579 districts in 1993-94.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Debt Service Aid

Funding in 1993-1994: $69.9 million (1.4 % of total state school aid).

Description: The state provided debt service aid to local districts for the payment on school bonds.

State Share: Debt service aid was calculated by multiplying the district's net debt service budget for the 1993-1994 school year by its state-funded share for the 1992-1993 school year, which was the same as the percentage of foundation aid a district received based on its maximum foundation budget. Aid entitlements were prorated at 74.1375 percent.

Extent of Participation: 272 districts in 1993-94.

Additional School Building Aid

Funding in 1993-1994: $17.2 million (less than 1.0% of total state school aid).

Description: Aid is available to meet the principal and interest on bonds for the renovation and replacement of school buildings constructed as a result of the Additional State School Building Aid acts (N.J.S.A. 18A:58-33 through 18A:58-33.41).

State Share: The level of state support was determined through a state review of the school district's application for funds. The review considered the number of unhoused pupils, enrollment growth, the municipality's total tax rate, net debt of municipality, school debt, density of population, the valuation in support of each child, and the number of children on welfare rolls. The entitlements were based upon a percentage of a calculated maximum amount, with the annual debt service not to exceed $25 per pupil in resident enrollment as of September 30, 1968, September 30, 1969, and September 30, 1976.

Extent of Participation: 103 districts in 1993-94.

Capital Grant For Construction For Special Needs Districts

Funding in 1993-1994: $50.0 million (1.02 % of total state school aid).

Description: The Public School reform Act of 1992 provided a capital construction grant for the construction, renovation, repair, or alteration of public school facilities in special needs districts.

State Share: State provided 100 percent of the required additional funds.

Extent of Participation: 30 school districts in 1993-94.

Local Capital Project Financing

Information not provided.

V. TEACHER RETIREMENT

Funding in 1993-1994: Pensions: $380.7 million (7.8 % of total state school aid).
Social Security: $392.1 million (8.0 % of total state school aid).

Description: Pension and social security aid is a separate aid program that covers the cost of local districts' employer contributions to the Teachers Pension and Annuity Fund (TPAF) and social security system (FICA).

State Share: 100 percent of the required contributions.

Extent of Participation: 582 districts in 1993-94.

VI. SPECIAL EDUCATION

Funding in 1993-1994: $582.5 million (11.9% of total state school aid).

Description: Special education aid was provided in the same amount received for the 1992-1993 school year under the Quality Education Act. Under the QEA, aid was provided to districts for the additional costs of educating students with handicaps. Special education cost factors were revised in the Quality Education Act to include new categories for autistic, county vocational, county special services, and regional day school students. The QEA also added a new cost factor for full-day preschool handicapped pupils.

State Share: Special education aid for 1992-1993 was calculated by multiplying the number of students enrolled in each of the special education categories by the cost factor for each category and the foundation amount for categorical aid ($7,232).

Additional Cost Factors for Special Education Categories:

Educable	0.60
Trainable	0.99
Orthopedically handicapped	1.70
Neurologically impaired	0.42
Perceptually impaired	0.12
Visually handicapped	2.79
Auditorily handicapped	1.63
Communication handicapped	0.84
Emotionally disturbed	1.09
Socially maladjusted	0.67
Chronically ill	2.23
Multiply handicapped	1.05
Resource room	0.45
Autistic	1.84
Preschool handicapped (half-day)	0.30
Preschool handicapped (full-day)	0.60
County special services school districts	1.38
Regional day schools	1.38
County vocational school, special education services	0.59
Residential facility for the retarded	1.72
Day training center	2.37
Residential youth center	1.39
Training school or correctional facility	0.56
Child treatment center or psychiatric hospital	1.03
Supplementary and speech instruction	0.18
Home instruction	0.0025

Extent of Participation: 602 districts in 1993-1994.

VII. COMPENSATORY EDUCATION

Aid for At-Risk Pupils

Funding in 1993-1994: $293.0 million (6.0% of total state school aid).

Description: Aid was provided in the same amount received for the 1992-1993 school year. Aid for at-risk pupils provides additional funds to districts to help them reduce obstacles to academic success for students whose socioeconomic backgrounds may present special challenges. In 1991-1992, aid for at-risk pupils replaced compensatory education, which was provided to districts based on the number of students who failed the basic skills test. Aid for at-risk pupils is based on family income, as determined by eligibility for free meals or free milk.

The purpose of aid for at-risk pupils is to improve disadvantaged students' opportunities for academic success by providing additional funds to school districts with low income students. The funds were intended to help districts to meet the needs of their at-risk students through preventive programs, remedial programs, or other measures that would enhance the education of students.

State Share: Aid for at-risk pupils was calculated similarly to aid for special education except that at-risk students were weighted by grade category to account for the varying excess cost in the grade categories:

Grade Category	*At-risk cost factors*	*Additional Aid Per Student*
Preschool-5	0.151	$1,092
6-8	0.168	$1,215
9-12	0.202	$1,461

At-risk aid was determined by multiplying the number of students eligible for free meals or free milk in each grade category by the appropriate weight and the foundation amount for categorical aid ($7,232).

Extent of Participation: 581 districts in 1993-94.

VIII. GIFTED AND TALENTED EDUCATION

None.

IX. BILINGUAL EDUCATION

Funding in 1993-1994: $57.4 million (1.2% of total state school aid).

Description: Aid was provided in the same amount received for the 1992-1993 school year. Bilingual education aid under the Quality Education Act was provided to districts for the additional costs involved in educating children with limited English proficiency. The cost factor for bilingual education programs was 0.18.

State Share: To determine the amount of a district's bilingual education aid, the state multiplied the number of students enrolled in bilingual education programs by the foundation amount for categorical aid ($7,232) and the cost factor for bilingual education (0.18).

Extent of Participation: 440 districts in 1993-94.

X. OTHER CATEGORICAL PROGRAMS

County Vocational Aid

Funding in 1993-1994: $28.7 million (less than 1.0% of total state school aid).

Description: Aid was provided in the same amount received for the 1992-1993 school year. County vocational aid was provided to county vocational school districts for the additional costs of educating students in vocational education programs. This aid was provided in addition to any foundation aid a pupil generated.

The QEA contained cost factors for students in secondary and full-time post-secondary vocational education programs. The cost factor for secondary students is 0.26. For post-secondary students, the cost factor is 0.13. Aid for students attending shared-time secondary programs was determined by reducing the weight by one-half.

State Share: County vocational education program aid was calculated by multiplying the number of students enrolled in the secondary and post-secondary programs by the cost factors for each program and the state foundation amount for categorical aid ($7,232).

Extent of Participation: 21 county vocational school districts in 1993-94.

Adult and Continuing Education

Funding in 1993-1994: $2.4 million (less than 1.0% of total state school aid).

Description: Adult and continuing education aid is available to any school district to ensure that individuals 16 and older are provided with education opportunities. Types of assistance include: high school equivalency aid (N.J.S.A. 18A:50-12), adult literacy aid (P.L. 91-230), and evening school for foreign born aid (N.J.S.A. 18A:49-1).

State Share: High School Equivalency — Assistance is provided in the amount equal to the annual costs for instructors' salaries, materials, and equipment so that students receive training in the academic skills necessary to pass the test of General Educational Development (GED).

Adult Literacy — Assistance is provided in the form of the ten percent matching funds required for the federal grant for Adult Basic Education.

Evening School for Foreign Born — Assistance is provided to school districts in the form of matching aid (1:1) up to $5,000 per school district.

Extent of Participation:
High school equivalency — 100 districts in 1993-94.
Adult literacy — 120 districts in 1993-94.
Evening School for Foreign Born — 59 districts in 1993-94.

General Vocational Aid

Funding in 1993-1994: $6.8 million (less than 1.0% of total state school aid).

Description: Aid is available to support the state's workforce readiness system by expanding occupational education programs to provide quality career orientation programs and to assist students in overcoming barriers to employment.

State Share and Extent of Participation: District and Regional Vocational Education Act ($.8 million). State funds are used for matching purposes with federal funds. The state may grant up to $10,000 per year per school (N.J.S.A. 18A:54-9). Twenty districts participated in 1993-94.

Vocational Education ($5.5 million). State funds are used to provide grants to local education agencies for Career Exploration Programs, Transitions to the Workforce, and Occupational Programs (N.J.S.A. 18A:58-34 and 18A:58-35). Approximately 131 districts participated in 1993-94.

Work Study Program ($.5 million). State funds are matched with local school district dollars. Funds are used to provide financial aid through part-time work for vocational students outside of school hours. These students must qualify as economically disadvantaged and be between 15 and 20 years old. Approximately 1,740 pupils in 100 schools participated in 1993-94.

School Nutrition

Funding in 1993-1994: $6.6 million (less than 1.0% of total state school aid).

Description: Aid is available to reimburse school districts for lunches served to 470,000 children daily. State funds supplement federal funds.

State Share: Reimbursement for the cost of school lunches is provided under the National School Lunch Aid. All meals served to children are subsidized with state and federal funds.

Extent of Participation: 500 districts in 1993-94.

Desegregation Aid

Funding in 1993-1994: $14.0 million (less than 1.0% of total state school aid).

Description: Aid is provided to districts to be used for the implementation, expansion and enhancement of districts approved desegregation plans.

State Share: Up to $300 per-pupil may be awarded to districts through the RFP process.

Extent of Participation: 28 districts in 1993-94.

Payments for Children With Unknown District of Residence

Funding in 1993-1994: $6.7 million (.1 % of total state school aid).

Description: Aid for children with unknown district of residence is provided to the Departments of Corrections or Human Services for the provision of educational services to such children (N.J.S.A. 18A:7B-12).

State Share: The state provides the full cost of the education of these children.

Extent of Participation: Payments are made to the Departments of Corrections and Human Services.

Minimum Teacher Starting Salary Aid

Funding in 1993-1994: $.5 million (less than 1.0% of total state school aid).

Description: Aid is provided to school districts to help increase full-time teaching staff salaries to a minimum salary of $18,500.

State Share: The state provides funds required to bring all teacher starting salaries to $18,500.

Extent of Participation: 69 districts in 1993-1994.

State-Operated School District Differential Aid

Funding in 1993-1994: $25 million (less than 1.0% of total state school aid).

Description: Additional funds were provided to the two state-operated school districts (Jersey City and Paterson) to reduce the property tax burden on the municipality.

State Share: State provided 100 percent of the required additional funds.

Extent of Participation: Two state-operated school districts in 1993-94.

Aid to Districts With High Concentrations of Senior Citizens

Funding in 1993-1994: $1.7 million (less than 1.0% of total state school aid).

Description: Additional funds were provided to four school districts to reduce the property tax burden on municipalities that had high concentrations of senior citizens.

State Share: State provided 100 percent of the required additional funds.

Extent of Participation: Four school districts in 1993-94.

Other Categorical Aid

Funding in 1993-1994: $1.4 million (less than 1.0% of total state school aid).

Description: Additional funds were provided for an Education Information Resource Center, to establish alternate schools for disruptive students, special education funds for A. Harry Moore School for the deaf, for repair of underground storage tanks, and for emergency funds for school districts.

State Share: State provided 100 percent of the required additional funds.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-1994: $69.6 million (1.4 % of total state school aid).

Description: Nonpublic school aid is available to school districts to reimburse districts for expenses they are required to incur on behalf of students who are enrolled in nonpublic schools within the district. Types of assistance include: nonpublic textbook aid (N.J.S.A. 18A:58-37.3), auxiliary services aid, compensatory education, English as a second language, home instruction (N.J.S.A. 18A:46-1), handicapped aid (N.J.S.A. 17A:46-19), nutrition aid (N.J.S.A. 18A:58-7.1), auxiliary transportation aid (N.J.S.A. 18A:46A-6), and nursing services aid (N.J.S.A. 18A:40-23).

State Share:

Textbook Aid. Funds to support the purchase and loan of textbooks as based upon the state average budgeted textbook expense for public school pupils for the pre budget year ($8.5 million).

Auxiliary Services Aid. Funds to support the provisions of these services by public schools is based upon the actual number of identified pupils on the last school day in October multiplied by the statewide average cost of providing the equivalent service to children enrolled in public schools ($26.5 million).

Handicapped Aid. Funds to support the provision of these services by public schools is provided for the full cost of the service ($20.2 million).

Nutrition Aid. Aid is provided to nonpublic schools for school lunches served to 31,700 children daily. Meals are subsidized with state and federal funds, with federal funds providing up to 90 percent of the cost ($.4 million).

Transportation Aid. Aid is provided to nonpublic schools through the local public school to provide for transportation to pupils enrolled full time in a K-12 nonpublic school ($2.1 million).

Nursing Services Aid. Aid is provided to nonpublic schools through the local public school to provide nursing services to pupils enrolled in a full time K-12 nonpublic school ($11.9 million).

Extent of Participation: Approximately 300 districts in 1993-1994.

Miscellaneous Grants In Aid

Funding in 1993-1994: $14.6 million (less than 1.0% of total state school aid).

Description: *New Jersey Youth Corps Program.* Assists high school dropouts aged 16-21 by providing basic education instruction to prepare students for the GED test. Participants also receive vocational skills training on community improvement projects ($3.7 million).

Youth Apprenticeship. This program is intended to improve a student's transition from high school to work by providing formal apprenticeship opportunities for in-school and out-of school youth ($2.0 million).

Math and Science Education. The Statewide Systemic Initiative to Reform Mathematics and Science Education and a Math Science Initiative provided grants to participating schools for teacher training in these subjects ($1.78 million).

Good Starts. This program provides grants to special needs districts to support services to three year old children including education, health, nutrition, social services, parental involvement, and extended child care ($6 million).

Governor's Teaching Scholarship. This program is designed to attract highly qualified students to the field of teaching by providing scholarships ($.852 million).

Arts Programs for Teens. Provides grants to encourage teen art ($0.1 million).

Early Childhood Learning and Literacy . Provides funding for early learning centers, and for literacy programs for adults ($0.125 million).

State Share: State provided 100 percent of the required additional funds.

XII. EARLY CHILDHOOD EDUCATION

Information not provided.

XIII. LOCAL SCHOOL REVENUE

Property tax is the only local tax that funds schools. In 1993-94, the property tax generated $5,786.7 million.

XIV. TAX AND SPENDING LIMITS

The QEA allowed local leeway in determining the amount of a district's budget. Most districts were not mandated to spend at the level of the maximum foundation budget or tax up to the local fair share amount determined by the state. These provisions of the QEA were continued for the 1993-1994 school year.

Budget Caps

The state restricts districts' budget growth to limit annual increases in local property taxes, promote cost effectiveness, and control the overall increases in school spending. Limits on budget growth are determined through budget caps. Budget caps are percentages used to calculate the maximum amount a district is permitted to increase its net budget each year. Under the QEA Act, a district's budget cap was applied to its net budget to calculate the maximum allowable yearly increase. The net budget includes foundation aid, all categorical aid, transition aid, transportation aid, and the general fund tax levy.

All districts were subject to budget caps. Districts were allowed annual net budget increases between 5.63 percent and 6.76 percent. Special needs districts, however, were subject to an "equity spending cap" that was intended to allow these districts to increase annual spending at a rate that would enable them to achieve spending parity with the state's wealthiest districts by 1995-96.

Cap Waivers

A district could spend beyond the amount permitted by its budget cap only if it acquired permission to increase its net budget beyond the spending level calculated by the budget cap formula. This was called a cap waiver. Districts could obtain a cap waiver from either:

1. The state's Commissioner of Education; or

2. The voters in school districts with elected school boards of education (Type II) or the board of school estimate in districts with appointed boards of education (Type I).

The commissioner could only consider granting a district's request for a cap waiver under four circumstances:

1. The district has had an annual average increase greater than two percent in its resident enrollment for the two prior years;

2. The district had an increase greater than five percent in its special education costs for the prior year;

3. The district has entered into a lease purchase agreement during the 1990-91 school year, but prior to April 1, 1991; or

4. The district sends pupils and pays tuition to a special needs district.

There are no other circumstances under which the Commissioner could approve a cap waiver. The Commissioner's decision on a cap waiver request could be appealed to the State Board of Education.

The QEA also allowed the voters or board of school estimate to approve spending beyond the budget cap for other reasons. A question had to be put to the voters in the annual school election in a Type II school district or the board of school estimate in a Type I school district. If the voters or board of school estimate disapproved the request to exceed the budget cap, there was no appeal unless the additional spending was required to provide a thorough and efficient education.

XV. EARMARKED STATE REVENUE

In New Jersey, two revenue sources are earmarked for education; the state income tax, which supports education aid and the state property tax relief program, and the state lottery, which supports education aid and state institutions. Although these revenue sources are earmarked for education, no specific portion of either is required to be apportioned to education in a fiscal year.

XVI. SPECIAL TOPICS

None.

NEW MEXICO

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I. GENERAL BACKGROUND

State Support

- The state share of revenues for public school operational expenditures has remained relatively stable from the implementation of the formula (1974) to the present. The state percentage has remained at roughly 90 percent since 1983 with the 1993-94 percentage at 94.93 percent. The 1993-94 local percentage equaled 1.73 percent with only 0.61 percent from a local property tax levy. Federal indirect revenues contributed another 3.34 percent.

- Public school operational revenues from state funds come from several sources including the state general fund, the current school fund, and federal mineral leases. State general fund revenues are not earmarked for the public schools. In 1993-94, the estimated general fund revenues were derived from gross receipts taxes, income taxes, interest, severance taxes, rents and royalties, license fees, and miscellaneous. The public school share of general fund revenues has remained around 50 percent. In 1986-87, the public school share was 51.6 percent. It fell below 50 percent in 1990-91, and equaled 46.1 percent in 1993-94.

- The largest single revenue source, and the basis of the funding formula, is the State Equalization Guarantee that typically accounts for more than 85 percent of any district's operational revenues. In 1993-94, the equalization distribution accounted for 93.24 percent of operational revenues statewide. The distribution is noncategorical in nature and encourages local priority initiatives through the absence of categorical funding and a fund "tracking" system.

- The State Equalization Guarantee is intended to assure that each of the 88 school districts will receive 100 percent of the calculated program cost. Each year, the state uses a typical incremental budgeting process to determine the overall program cost and ultimately the State Equalization Guarantee Distribution. The statewide appropriation is developed from the current year's budget by adding amounts anticipated for salary increases, increases in the cost of utilities and supplies/materials and, in recent years, extraordinary increases in insurance premiums as separate elements. There are no statutory or regulatory guidelines for determining the specific elements that must be added to the base.

- The New Mexico Public School Funding Formula was implemented in 1974. While there have been over 30 adjustments to the formula over the years, the current New Mexico funding formula is essentially the same as the one enacted by the Legislature in 1974. Recent adjustments have included increasing the weighting for bilingual education from 0.3 to 0.5 over a four-year period (0.5 effective July 1, 1994), the addition of an urban density factor effective in 1991-92, and changes for reductions in pupil:teacher ratios in kindergarten and grades 1-6.

Local Support

- The state has 88 fiscally independent K-12 districts. (89 districts in 1994-95).
- Local revenues account for less than three percent of the operational revenues and less than 20 percent of total revenues. In 1993-94, local operational revenues of $18.9 million (1.7 percent of total operational revenues of $1,094.1 million) were derived from a 0.5 mill property tax levy, fees from patrons, tuition from out-of-state, earnings from investments, rents, sales of real property and equipment, and miscellaneous including federal indirect revenues. Additional local nonoperational revenues of $262.4 million were derived from fees from patrons, local grants, bond sales, and capital outlay taxes.
- The current funding formula was implemented in 1974 with a local property tax levy of 8.925 mills and local effort equal to approximately 13 percent of the public school operational revenues. In response to demands for property tax relief, the 1981 Legislature enacted a three phase reduction in school property taxes from the 8.925 mills to 0.5 mills, and the local property tax share has remained at less than one percent of the total operational revenues.
- All 88 districts impose the 0.5 mill levy on residential and nonresidential property based on a statewide uniform assessment ratio of 33-1/3 percent. The state takes credit for 95 percent of property tax revenues from the mill levy in the determination of program cost and the equalization distribution.

Funding Summary, 1993-94

Total State School Aid (All Programs/All Sources)		$1,147 million
Grants in aid	955 million	
Teacher retirement contributions	64 million	
FICA	44 million	
Other Insurance	84 million	
Total Local School Revenue		$281 million
Property tax — operational	7 million	
Other local tax revenue	214 million	
Local source non-tax revenue	60 million	
Total Combined State and Local School Revenue		$1,428 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

Teacher retirement contributions, FICA, and other insurance (e.g., health) are part of the State Equalization Guarantee but are shown separately for purposes of this summary.

II. THE BASIC SUPPORT PROGRAM

State Equalization Guarantee

Funding in 1993-94: $1,004.1 million (87.6% of total state school aid).

Nature of Program: Foundation program considered by the state as a full state funding program under 1974 Public School Finance Act.

Allocation Units: Pupils. Enrollment. Weighted program, training and experience, size, and enrollment growth units.

Local Fiscal Capacity: Equalized assessed property valuation plus other revenue.

How Formula Operates: The State Equalization Guarantee Distribution is the amount of money distributed to each school district to insure that the school district's operating revenue, including certain local and federal revenues, is equal to the school district's program cost.

The formula is driven primarily by the number of students enrolled in a school district. A district's *need* for support is determined by the weighted sum of units based on educational program factors (early childhood education, basic grades 1-12 programs, special education programs, and bilingual education), several size factors, enrollment growth, and a factor for training and experience.

These factors are used to establish program units that determine the overall district program cost and subsequent flow of state equalization funds to the district. The program unit is defined as the product of a factor multiplied by the factors cost differential.

Total program units (1993-94) for each district are calculated using the factors mentioned above in the following manner:

1. Early Childhood Education. Kindergarten units are equal to the number of full-time equivalent (FTE) students times a cost differential of 1.44. No early childhood education student may be counted for more than 0.5 early childhood FTE.

2. Basic Education Programs. Students enrolled in grades one through twelve in a district's "regular" program. Units for basic programs equal the sum of:
    - the product of grade 1 membership times 1.2,
    - the product of grades 2 and 3 membership times 1.18,
    - the product of grades 4-6 membership times 1.0, and
    - the product of grades 7-12 membership times 1.25.

    (Effective July 1, 1994, the following cost differentials apply:
    - the product of grade 1 membership times 1.2,
    - the product of grades 2 and 3 membership times 1.18,
    - the product of grades 4-6 membership times 1.045, and
    - the product of grades 7-12 membership times 1.25.)

3. Special Education Programs. Special education students are classified as A, B, C, or D Level depending on the type and extent of services required. Special education units are the sum of:
    - the product of the number of approved A and B programs times 20.0,
    - the product of the C Level membership times 1.9,
    - the product of the D Level membership times 3.5, and
    - the product of the number of approved ancillary programs (specialist related programs needed to identify, classify, and provide services to students) times 20.0.

4. Bilingual Education. Programs for students, in grades K-12, that utilize the cultural and linguistic backgrounds of students and teach students to appreciate the value and beauty of different languages and cultures. Bilingual units are equal to the full-time equivalent students in these programs times 0.45 (0.5 effective July 1, 1994).

5. Size Factors. Size adjustment units are calculated as follows:

    Elementary-Junior High Units:

$$\frac{200 - \text{Membership(MEM)}}{200} \times 1.0 \times \text{MEM} = \text{Units}$$

Senior High Units:

$$\frac{200 - \text{MEM}}{200} \times 2.0 \times \text{MEM} = \text{Units}$$

OR

$$\frac{400 - \text{MEM}}{400} \times 1.6 \times \text{MEM} = \text{Units}$$

District Units:

$$\frac{4{,}000 - \text{MEM}}{4{,}000} \times 0.15 \times \text{MEM} = \text{Units}$$

District Units: *Sparsity or Rural Isolation* (districts with over 10,000 MEM with a ratio of MEM to senior high schools less than 4,000:1)

$$\frac{4{,}000 - \text{MEM}}{\text{Senior High Schools}} \times 0.50 = \text{Units}$$

District Units: *Density Units*

Districts with more than 10,000 but less than 15,000 MEM

$$\frac{\text{MEM} - 10{,}000}{10{,}000} \times .15 \times \text{MEM} = \text{Units}$$

Districts with more than 15,000 but less than 35,000 MEM

$$\frac{\text{MEM} - 15{,}000}{15{,}000} \times .15 \times \text{MEM} = \text{Units}$$

Districts with more than 35,000 MEM

$$\frac{\text{MEM} - 35{,}000}{35{,}000} \times .023 \times \text{MEM} = \text{Units}$$

6. Enrollment Growth Units. A school district with an increase in MEM equal to or greater than one percent, when compared with the immediately preceding year, is eligible for additional program units as follows:

   (MEM current year – MEM prior year) x 0.50 = Units

   Effective in 1994-95: New District Adjustment

   MEM for current year x .147 = Units

   Additional Program Units in District With MEM Decrease Due to Creation of New District

   (MEM prior year – MEM current year) x .17 = Units

7. Instructional Staff Training and Experience Index. A staff T & E Index is calculated based upon five academic classifications and five levels of teaching experience. The Index is used as a multiplier of the total early childhood, grades 1-12, special education, and bilingual units.

			Years of Experience		
Academic Classification	0-2	3-5	6-8	9-15	Over 15
Bachelor's Degree or less	0.75	0.90	1.00	1.05	1.0
Bachelor's plus 15 credit hours	0.80	0.95	1.00	1.10	1.15
Master's or Bachelor's plus 45 credit hours	0.85	1.00	1.05	1.15	1.20
Master's plus 15 credit hours	0.90	1.05	1.15	1.30	1.35
Post-master's or Master's degree plus 45 credit hours	1.00	1.15	1.30	1.40	1.50

The Training and Experience Index is determined by the following calculations:

1. multiply the number of FTE instructional staff in each academic classification by the numerical factor in the appropriate "years of experience" column;
2. add the products calculated in (1) above; and
3. divide the total in (2) by the total number of FTE instructional staff.

No district's factor shall be less than 1.0.

State Share: The total units, including program units, multiplied times the T & E Index, size and enrollment growth units, when multiplied times the annually established unit value, equals the district Program Cost.

The 1993-94 unit value equaled $1,935.99 per unit with 534,952 units statewide and a total program cost of $1,035.7 million. The State Equalization Guarantee, after subtracting $31.6 million in local and federal revenues, equaled $1,004.1 million. The State Equalization Guarantee represented more than 90 percent of the state and local public school operational expenditures.

Local Share: The state distribution takes into account 95 percent of the local one-half mill levy and 95 percent of federal forest reserve funds and most PL 874 funds. PL 874 special education funds and grants for students living on Indian lands are not subject to the 95 percent credit. One hundred percent of these latter distributions remain in the local districts.

Weighting Procedures: See above.

Adjustment for Special Factors: See above.

Aid Distribution Schedule: Information not provided.

Districts Off Formula: One district, with federal funding under the Atomic Energy Community Act (now the Department of Energy), is covered by a separate distribution formula.

III. TRANSPORTATION

Funding in 1993-94: $71.2 million (6.2% of total state school aid).

Description: A transportation distribution is allocated to each school district according to a formula developed by the State Transportation Director and the State Superintendent for the to-and-from school transportation costs of students in grades K-12 attending public school within the district of residence and for 3- and 4-year-old developmentally delayed children who attend public schools. Vocational transportation distributions are used for the transportation of students from regular attendance centers to vocational programs.

Transportation appropriations are based on the following factors: (1) depreciation allowance; (2) continued use allowance; (3) school-owned bus replacements; (4) operation and maintenance and fuel allowance; (5) fuel allowance; (6) drivers' salaries; (7) training; (8) employee benefits; (9) special education assistants; (10) fleet insurance; (11) safety service programs; (12) per-capita feeder reimbursements; (13) district administration; (14) gross receipts taxes; and (15) profit factors.

The 1990 Legislature added special provisions and funding for the reimbursement of transportation costs to parents or guardians, with family incomes at or below the federal poverty level, for attendance outside a child's attendance zone.

State and Local Shares: Transportation aid is intended to cover the full cost of transportation, but some districts subsidize some of the transportation costs.

Extent of Participation: All districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Funding in 1993-94: $252.8 million (State and Local combined).
State $28.6 million
Local $224.2 million

Description: Capital outlay financing is both a local and state responsibility in New Mexico. Local capital outlay revenues are generated from (1) the sale of bonds, (2) a direct public school buildings levy for larger districts, (3) a local capital improvements levy, and (4) earnings form investments, rents, sales of real property and equipment, and other miscellaneous sources. The state, in addition to specific capital outlay directed at particular districts, provides capital outlay financing through (1) critical and emergency capital outlay funds and (2) a state public school capital outlay match for the local capital improvements levy. Total state and local capital outlay revenues, including taxes, interest, and abatements, equaled $252.8 million in 1993-94.

Bonds. Local school districts may issue general obligation bonds for building, remodeling, and equipping school facilities under provisions of the Constitution of New Mexico. Before any general obligation bonds are issued, a local school board must submit to a vote, of the qualified electors in the district, on the question of creating a debt. Each district is limited in the amount of debt to six percent of the assessed valuation of the property in the district. Districts realized revenues of $70.9 million (28 percent of total capital outlay revenues) from bond sales, interest, and abatements in 1993-94.

The appropriate Board of County Commissioners levy and collect, upon all taxable property within a school district in the county, such tax as is necessary to pay the interest and principal on bonds. Debt service revenues equaled $75.9 million (30 percent) in 1993-94.

Public School Buildings Levy. Under the Public School Buildings Act, any school district — typically larger districts — may impose a tax of up to ten dollars on each thousand dollars of net taxable value of property for capital improvements upon approval of the qualified electors. The tax may be imposed for no more than five years. Public school buildings revenues equaled $41.4 million in 1993-94 (16.4 percent).

Capital Improvements Levy. Under the Public School Capital Improvements Act, local school boards, upon approval of the qualified electors, may impose a tax that does not exceed two dollars per thousand dollars of net taxable value of property for purchasing, erecting, remodeling and providing equipment and furnishings for schools, purchasing or improving school grounds, maintenance of buildings and grounds, and purchasing activity vehicles. The tax may be imposed for 1, 2, or 3 years.

The state, as discussed below, may provide matching funds once the tax has been imposed. Capital improvements revenues from local sources equaled $33.7 million in 1993-94 (13.3 percent).

State Critical, Emergency, and Special Capital Outlay. The Public School Capital Outlay Act provides for state funding of critical school district capital outlay needs that cannot be met by school districts after exhausting all other sources.

The state appropriates varying amounts to a Public School Capital Outlay Fund that are distributed by an appointed council. The State Department of Education also has limited funds for capital outlay emergencies. The Legislature, through special appropriations, provided funding to specific districts. The state provided $21.3 million in special state revenue funds for capital outlay in 1993-94 (8.4 percent).

State Match for Capital Improvements Levy. The Public School Capital Improvements Act has an equalization provision based on district program units and local property valuations. The state guarantees a level of revenue under the Act, and state matching funds are provided from the general fund, general obligation bonds, or severance tax bonds. The state match added $7.3 million in 1993-94 (2.9 percent).

V. TEACHER RETIREMENT

Funding in 1993-94: $115.0 million (10% of total state school aid).

Educational Retirement Fund	$63.5 million
Retiree Health Care — ERA	$7.3 million
FICA	$44.2 million

Description: The districts and employees contribute to these funds (Educational Retirement Fund contribution equals 8.65 percent of annual salary for the employer and 7.6 percent for the employee). The state's contributions to the fund are distributed to the districts through the state equalization guarantee. The districts and the employees contribute one percent of salaries for health care after retirement.

The state provides additional funding for health insurance, workmen's compensation, unemployment insurance, and forward funding of public school retiree, spouse, and dependents health insurance. The districts provide from 60 percent to 75 percent of the costs of health insurance depending upon individual salary levels.

VI. SPECIAL EDUCATION

Funding in 1993-94: $214.2 million (18.7% of total state aid).
Included in the $1,004.1 State Equalization Distribution.

Description: The funding formula provides noncategorical state support based on student enrollment, grade levels, and special needs of students, schools, and districts. The noncategorical distributions are intended to encourage local boards and administrators to find the most efficient and effective means to attain local and state goals. Consequently, while it is possible to describe the dollars distributed for special education, the distributions do not guarantee that the dollars will be spent only for special education. Even then, the description is imprecise because it does not take into account the distributions based on school and district size and teacher training and experience. It can only be assumed that portions of these other distributions are also used to meet the needs of special education students.

Students enrolled in special education programs are classified as A, B, C, or D depending upon the type and extent of services needed. Each program must be approved by the State Department of Education before state support is provided. Special education includes programs for gifted students and ancillary programs designed to provide the services of therapists, psychologists, and other specialists needed to identify, classify, and assist students.

With these brief explanations, the special education distributions can be outlined as follows:

A/B Programs	$53.6 million
Ancillary Programs	31.4 million
C Level	47.7 million
D Level	76.1 million
3 & 4 yr. old develop. disabled	5.3 million
Total	$214.2 million

Extent of Participation: All districts.

VII. COMPENSATORY EDUCATION

The state does not provide separate formula funding for compensatory education. In 1993-94, the state did provide limited funding ($6.3 million) as *Special Projects* that included grants to school districts for a variety of programs including family development training, alternative education for at-risk students, substance abuse prevention, school mediation, and gang intervention.

Since 1987, local school boards have been mandated to develop remediation programs to provide special instructional assistance to students in grades 1-8 who fail to master essential competencies as established by the State Board of Education. These programs may include but are not limited to tutoring or summer programs. The cost of summer and after-school remediation programs offered in grades 9-12 may be borne by parents or guardians except where parents are determined to be indigent. A reading assessment instrument designated by the state serves to determine the need for remedial programs.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94:	$15.0 million (1.3% of total state school aid). Included in the $214.2 million special education distribution mentioned above.

Description: A gifted student, for state funding purposes, is defined as a school-age person whose measured intelligence quotient, either verbal or nonverbal, measures at least two standard deviations above the mean on an intelligence test approved by the State Board of Education and scores at least at the 95th percentile on the total battery score of a standardized achievement test or has outstanding creativity, divergent or critical thinking skills, or outstanding problem-solving ability. Districts may offer additional programs for gifted students who fail to meet the eligibility requirements. However, the state does not provide funding for these programs.

In 1994-95, gifted students will be identified through an evaluation by multidisciplinary teams in each district and based on standards adopted by the State Department of Education. The specific intelligence quotient criteria were eliminated.

Extent of Participation: Gifted programs are included within special education with both B and C Level programs for 8,420 students in 66 districts in 1993-94.

IX. BILINGUAL EDUCATION

Funding in 1993-94:	$29.7 million (2.6% of total state school aid). Included in the State Equalization Guarantee.

Description: The state distributes funds to local districts offering bilingual programs in grades K-12 under the Bilingual Multicultural Education Act. The purpose of the Act is to ensure equal education opportunities for students in New Mexico. Cognitive and affective development is encouraged by utilizing the cultural and linguistic backgrounds of students in the curriculum, providing students with opportunities to expand their conceptual and linguistic abilities, and teaching students to appreciate the value and beauty of different languages and culture.

To be eligible for state financial support, each program shall provide for the educational needs of linguistically and culturally different students, including Native American children and other students who may wish to participate, in grades K-12, with priority given to programs in K-3; use two languages as mediums of instruction; use teachers who have specialized in elementary or secondary education with additional, special training in bilingual education conducted through the use of two languages; and emphasize the history and cultures associated with the students mother tongue.

Programs must be submitted to the State Department of Education for approval. At regular intervals, the local school board, the State Department of Education, and a parent advisory committee from the district must review the goals and priorities of the program and make appropriate recommendations to the State Board of Education.

Bilingual education distribution units are equal to the full-time equivalent students in approved programs multiplied times 0.35 in 1990-91.

The cost differential weight will increase to 0.50 by 1994-95.

Extent of Participation: 83,257 K-12 students in 59 of the 88 districts.

X. OTHER CATEGORICAL PROGRAMS

Instructional Materials

Funding in 1993-94: $15.2 million (1.3% of total state school aid).

Description: The state provides separate funding for instructional materials, which include textbooks and supplementary instructional materials of which 70 percent must be from a list adopted by the State Board of Education. Any qualified student or person eligible to become a qualified student attending a public school, a state institution, or a private school approved by the State Board of Education in any grade from K-12 is entitled to the free use of instructional materials. Any student in an Adult Basic Education Program approved by the State Board is also entitled to the free use of instructional materials.

Funds are provided for the purpose of paying for the cost of the purchase of instructional materials and the transportation charges for these materials. The state establishes separate instructional material accounts for each school district, state institution, private school, or adult education center and costs are debited against these accounts. Funds are not appropriated to the districts.

State Share: The state purchases a major share of instructional materials under the Instructional Material Law ($15.2 million in 1993-94). However, districts spent an additional $14.6 million of operational funds on other textbooks, library and audiovisual supplies and materials, and other instructional supplies and materials.

Extent of Participation: K-12 students in all districts, approved Adult Basic Education Programs, state institutions, and approved private schools.

Special Projects

Funding in 1993-94: $6.3 million (less than 1.0% of total state school aid).

Description: Various local district special projects were funded by the state, often on the basis of competitive applications. In 1993-94, 65 of the 88 districts received some funding from special state grants, which included programs such as Re:Learning, Early Intervention, lengthening the school day or school year, computer-based language arts, and Charter Schools Planning.

Extent of Participation: 65 districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

New Mexico does transfer funds and/or services to nonpublic schools under several programs. Federal funds (i.e., Chapter I) are used to provide services to eligible students in nonpublic schools. Textbook funds, accreditation (approval) and licensure services, and some testing services are provided to nonpublic students or schools.

The state also has a "quasi" voucher plan for handicapped students enrolled in notforprofit centers for D Level special education students (1993-94 = 29). Parents in a few communities are given very limited choices to send their children to these notforprofit centers. The choices are restricted by state regulations and the "appropriate" placement in terms of special needs. When the school and the parents agree on the placement, the local district transfers operational funds to the center. The district may also provide travel reimbursements.

XII. EARLY CHILDHOOD EDUCATION

None.

XIII. LOCAL SCHOOL REVENUE

Local operational revenues account for less than three percent of total operational revenues. In 1993-94, local revenues of $18.9 million were derived from a 0.5 mill property tax levy (29.5 percent), fees from patrons (12.2 percent), tuition from out-of-state (0.07 percent), earnings from investments (25.2 percent), rents (11.1 percent), sales of real property and equipment (2.9 percent), and miscellaneous including federal indirect revenues (19.0 percent).

Districts also received $262.4 million in local revenues principally for capital outlay

Income Tax

Not allowed.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Local districts are required to levy for general operations one-half mill on assessed valuation (one-third of market value). No school board or officer or employee of a school district can make any expenditure or incur any obligation for the expenditure of public funds unless the expenditure or contractual obligation is made in accordance with the operating budget approved by the State Department of Education. Transfers of funds between line items within a series of a budget are allowed. Transfers within a budget or the provision of items not previously included are possible upon written request and with approval of the State Superintendent. Districts cannot operate under a deficit budget.

Each school district is limited in the amount of general obligation bonds which it can have outstanding at any one time. The constitutional limit is six percent of the assessed valuation of the property in the district.

Also see sections on *Public School Buildings Levy* and *Capital Improvements Levy* in Section IV — Capital Outlay and Debt Service.

Spending Limits

Information not provided.

Voter Approval of Budgets and Bond Issues

Information not provided.

XV. EARMARKED STATE REVENUE

None.

XVI. SPECIAL TOPICS

None.

NEW YORK

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I. GENERAL BACKGROUND

State

- *History.* Over the course of the last fifty years, revenues from state sources as a percent of total expenditures for public schools reached its highest level in 1968-69 at 48.1 percent after a significant and relatively steady recovery from a 1944-45 low point of 31.5 percent. A gradual decline from the late sixties through the mid-seventies saw the share fall to 37.6 percent in the fiscal crisis of 1977-78. State support for elementary and secondary education more than doubled during the last decade, only to be followed by a multi-year fiscal crisis (1990-91—1992-93). The State's economy began to recover and a modest increase was provided in School Aid. However, the rapid growth in expenditures exceeded the growth in state funding, leaving the State share at 39.2 percent. Total expenditures include those from the general fund, federal aid fund (from 1965-66 through 1973-74) or special aid fund (which includes federal, from 1974-75), and debt service fund (since it was established in 1978-79).

- *Revenue Sources.* State aid for the public schools comes primarily from the State's General Fund (approximately 90 percent) wherein the major revenue source is state taxes (e.g. income and sales); the balance (approximately 10 percent) comes from a Special Revenue Fund account supported by lottery receipts. All net revenues from the state lottery are statutorily earmarked for school aid. In addition, the General Fund guarantees the level of lottery funds appropriated for Education, making up any shortfall in lottery revenues.

- *State Fiscal Year.* School year funding is split between two state fiscal years. Payments to school districts are based on the principle that local funds should be spent first. For the most part, local revenues from school property taxes are collected in the fall. The payment schedule is individualized to provide earlier State aid payments to the poorer districts that are the most dependent on State aid.

- *Aid Programs.* State aid is paid through numerous programs but operating aid alone accounts for approximately 60 percent. With a few exceptions, aid is based on percentage equalization (aid ratio) type formulas, although many of the formulas incorporate some type of minimum aid provision represented by either a percentage or a dollar flat grant. Most formulas, other than building, transportation, and aid for programs for pupils with handicapping conditions use a per pupil cost allowance in lieu of actual expenses. Some formulas were modified or eliminated in 1993-94 after two years of reductions in aid payments adopted to address the state's deficit.

- *Status of Litigation.* Three litigations have recently challenge the scheme for financing public education in New York State: *REFIT*[1] V. *Cuomo, City of New York* v. *State of New York, et al.* ("Case I"); and *Campaign for Fiscal Equity, Inc., et al.* v. *State of New York, et al.* ("Case II").
- *REFIT* v. *Cuomo* was dismissed in the first instance by the trial court, on the ground that New York's landmark school finance suit, *Levittown* v. *Nyquist,* had already settled the issues raised against plaintiffs in the 1982 Court of Appeals decision. The Appellate Division affirmed. *REFIT* is now on appeal to the New York State Court of Appeals with arguments scheduled to be heard on January 3, 1995.
- Shortly after the latter two complaints were filed, the court consolidated Cases I and II, and defendants moved to dismiss. In Case I, the motion was granted on procedural grounds. In Case II, the motion was denied with respect to all but one claim. The disposition in Case II was significant, because it was the first time since *Levittown* that a complaint alleging inequities in the State financing scheme had survived a motion to dismiss. The plaintiffs in Case I and the defendants in Case II appealed to the Appellate Division.
- The Appellate Division rendered a decision on November 15, 1994, affirming the lower court's dismissal of the complaint in Case I and reversing the lower court's refusal to dismiss the complaint in Case II. It is expected that the parties will appeal to the Court of Appeals.
- Predictably, the Appellate Division's decision was based upon the precedent set in *Levittown.* The court rejected plaintiffs' attempt to distinguish their constitutional claims from those decided in *Levittown,* holding that "the theory expounded in these complaints is virtually identical to that advanced, fully tried and ultimately rejected on appeal in Levittown." While the court found that plaintiffs had overcome the "REFIT hurdle" by including an allegation of failure to meet minimum standards (as the REFIT plaintiffs had failed to do), it nevertheless held that the underlying facts and/or theory supporting that "minimum standards" claim were no different from those already addressed in *Levittown.* The court also rejected, without much analysis, plaintiffs' claim of disparate impact.

Local

- *School District Types.* In 1993-94, the state had 661 K-12 districts, plus 30 non-K-12 districts, for a total of 691 local school districts employing eight or more teachers and eligible for regular state aid funding. Except for the school districts in the state's five largest cities (the Big 5), all districts are fiscally independent. In addition, 39 Boards of Cooperative Education Services (BOCES) provided a range of programs and services to groups of local districts other than the Big 5.
- *Property Tax.* Property taxes constitute the principal source of local district tax revenues.
- *Other Local Revenue Sources.* The state's sales tax laws reserve four percent for the state and permit all localities to levy an additional three percent or, by specific authorization, four percent in the case of about 20 counties. (In addition, some areas collect additional 0.25 percent sales taxes for dedicated purposes; this results in an 8.5 percent sales tax in Nassau and Suffolk counties.) Eight counties distribute a portion of the local sales tax to school districts. In addition, a few localities impose a utility tax to benefit school districts. Other district revenues may result from use of money, charges for services, sale of property, or compensation for loss.

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[1] REFIT is the acronym for Reform Educational Financing Inequities Today.

Funding Summary, 1993-94*

Total State School Aid (All Programs)		$9,373 million
Grants in Aid	9,373 million	
Teacher Retirement Contributions	0	
FICA	0	
Total Local School Revenue		$13,123 million
Property tax revenue	12,141 million	
Other local source tax revenue	202 million	
Local source non-tax revenue	780 million	
Total Combined State and Local School Revenue		$22,496 million
State-Financed Property Tax Credits Attributable to School Taxes	46 million	

* Includes funding for nonpublic schools, community based organizations, public Special Aid Fund programs, and aid due for prior school years; some district estimated data was used since actual data was incomplete. Excludes $116.1 million in Federal Revenues in support of districts' general fund.

II. THE BASIC SUPPORT PROGRAM

General School Aid Formulas in 1993-94

Funding in 1993-94: $5,675.9 million (61% of total state school aid).

	$ (millions)	*% of total state aid*
Comprehensive Operating	$5,207.2	55.6%
Growth	23.8	0.3%
Extraordinary Needs	370.3	4.0%
Tax Effort	82.0	0.9%
Tax Equalization	88.9	0.9%
Transition (Minimum and Maximum)	(194.2)	–2.1%
Small Cities	87.7	0.9%
Out-of-district Homeless Students	4.0	<0.1%
Incarcerated Youth	6.0	0.1%

Comprehensive Operating Aid

Nature of Program: Percentage Equalizing. The formula uses a percentage equalization factor (aid ratio) applied to the sum of a fixed amount ($3,761) plus five percent of a district's Expense per pupil (approved operating expense (AOE) per Total Aidable Pupil Unit (TAPU) for Expense) between $3,761 and $8,000, but a district is guaranteed not less than a flat grant of $400 per pupil.

Allocation Units: Pupils. Total Aidable Pupil Units (TAPU) based on adjusted average daily attendance (AADA) with a choice of the most recently completed school year (base year) or the average of the two most recent years plus additional weightings described below; all pupils are counted in AADA; pupils in alternative programs are counted as a full time equivalent based on 1,000 instructional "contact" hours.

Local Fiscal Capacity: Ability to pay is measured by a district's Combined Wealth Ratio (CWR), which equals the sum of two ratios:

1. 50 percent of Full Value (FV) Wealth Ratio: Selected FV (equalized assessed value of taxable real property) per Total Wealth Pupil Units (TWPU) divided by the state average; "Selected" Full Value is the lesser of the most

recent (1991) full value or 117 percent of the prior two year average, a feature adopted to cushion the impact of rapid inflation of property values in some areas of the state during the mid and late 1980s. For 1993-94 aid the state average 1991 full value / TWPU was $303,900.

2. 50 percent of Adjusted Gross Income (AGI) Wealth Ratio: AGI of resident taxpayers per TWPU divided by the state average of $77,600.

CWR formula:

CWR = [.5 (District Sel FV / TWPU) / $303,900] + [.5 (District AGI / TWPU) / $77,600]

How Formula Operates: The per-pupil aid formula provides districts with the greater of:

[$3,761 + .05 (District Expense/Pupil=/<8,000 – $3,761)] x State Sharing Ratio

or a flat grant of $400.

Selected aid per pupil is multiplied by the district's total aidable pupil units (TAPU).

State Share: The State Sharing Ratio represents the state share. It is the highest value obtained from the following four calculations, but not more that .88, nor less than 0.

1.33 - (1.50 x CWR)
1.00 - (0.64 x CWR)
0.78 - (0.39 x CWR)
0.51 - (0.22 x CWR)

For a district of average wealth (CWR = 1.0), the state sharing ratio will be .39 based on the third formula.

Local Share: The local share is the difference between the AOE per pupil and the amount of state aid per pupil unit. For example, using the state average expense per pupil of $5,500 and the state average CWR of 1.0, the operating aid allowance ($3,761 plus the 5% of AOE per pupil) equals $3,848; the state sharing ratio equals .39; aid equals $1,500; and the local share would be $4,000 or 72.7 percent of the $5,500 expense per pupil.

Weighting Procedures:

Basic weightings used in Total Aidable Pupil Units (TAPU):

(Based on adjusted average daily attendance of *resident or non-resident pupils attending district operated programs* plus the enrollment of public school students in full time Board of Cooperative Educational Services (BOCES) programs for pupils with handicapping conditions)

Grade	*Weight*
1/2 Day K	.50
Full Day K-6	1.00
7-12 (includes equivalent attendance)	1.25
Full Day K-12 PSEN[2]	.25 additional
Summer ADA	.12

Pupil weightings used in TAPU for Expense:

APU for Expense is the sum of TAPU for the base year plus additional pupil weightings for pupils with handicapping conditions (PHC) served in the base year in district operated programs or in full time BOCES programs for PHC. The weightings are based on time spent in Special Education programs or services:

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[2] Pupils with Special Educational Needs (PSEN) is the product of the grade group AADA and the percent of third and sixth grade students falling below the statewide reference point on the state's pupil evaluation program (PEP) tests.

Time in Special Education Programs or Services	*Weight*
60 percent of the day	1.70
20 percent of the week	.90
Consultant teacher services	.80 (.90 beginning in 1994-95)
2 periods a week	.13

Pupil weightings used in Total Wealth Pupil Units (TWPU):

(Based on adjusted average daily attendance of *resident* pupils plus the enrollment of public school students in full time Board of Cooperative Educational Services (BOCES) programs for pupils with handicapping conditions)

Grade	*Weight*
1/2 Day K	.50
Full Day K-6	1.00
7-12 (includes equivalent attendance)	1.25
Full Day K-12 PSEN	.25 additional

plus the *additional* weightings (same as above) for *resident* pupils with handicapping conditions served in the year prior to the base year.

Aid Distribution Schedule: 1993-94 State General Aid Payments to school districts do not include Shared Services aid for district contracts with their regional Board of Cooperative Educational Services (BOCES aid), Excess Cost aids for students with handicapping conditions or Textbook, Software and Library Materials Aids for public and nonpublic students, or any competitive or earmarked grants.

Sept, Oct, & Nov 15, 1993:	From the Total General Aid payments due the district, the state pays, on behalf of the district, the total of the district's employer and employee contributions to the Teacher Retirement System (TRS) on 1992-93 salaries plus the 1993-94 amortization payment and the 1984 Chapter 665 payments.

Net aid for fixed and individualized payments equals the positive remainder of total General Aid payments due the district, minus TRS payments. This figure may be zero.

September 1, 1993:	Lottery Textbook aid plus, from the Net Aid, 100 percent of basic equalized Lottery Aid Ratio Aid.
October 15, 1993:	Possible fixed payment equal to the positive result of Net Aid multiplied by .125, minus Lottery Aid Ratio Aid payment.
November 15, 1993:	Possible fixed payment equal to the positive result of the product of Net Aid multiplied by .1875 minus Lottery Aid Ratio Aid payment and any October Fixed payment.
December 15, 1993:	Possible fixed payment is the positive result of the product of Net Aid multiplied by .25, minus Lottery Aid Ratio Aid payment, the October & November Fixed payments.

The balance of the Net aid due the district after the December fixed payment is payable in part under the individualized winter payments and/or the Spring payments. A portion of the preliminary Spring payment calculations is in fact advanced to March 31 (the last day of the state's fiscal year) as the result of a multi-billion dollar Local Government Assistance Corporation (LGAC) bond issue that allowed the State to pay out 70 percent of the state aid to the schools by that date. Prior to the bonding, the state paid approximately 38 percent of the total aid in the first state fiscal year, which covered 70 percent of the school year. Under the old system, many school districts had to issue revenue anticipation notes because so much state aid was paid out in the spring.

January-June, 1994:	Preliminary individualized payments by month, if any, are payable the first State business day of the month and are based on data on file on December 1.

Each payment equals the balance of 1993-94 aid due less a percent of the Net Total General Fund Expense (TGFE minus the sum of the districts local revenue and any state aid already paid). The percent starts at 50 percent in January and declines 10 percent a month so that it equals 10 percent in June.

The sum of the preliminary April, May, and estimated June payments are then reduced sufficiently by an advance of spring payments to be paid on or before March 31, 1994, to *sustain* the advance payments made with the proceeds of the prior years LGAC bonds plus an additional bond advance of $432.2 million. The advances eliminate any April payment as well as about 97 percent of the May payment.

The sustaining spring advance payment is reduced by 50 percent of any federal medicaid reimbursements to the district during the prior 12 months ending January 31, 1994. See discussion under Special Education.

The June payment is recalculated to include Bond Anticipation Note Aid claimed in the spring of 1994 and any changes in aid due to the audit of the 1993-94 general aid claim.

Districts Off Formula: Does not apply, see **Transition Aid** below.

Extent of Participation: Operating aid is paid to all major school districts.

Growth Aid

Funding in 1993-94: $25.8 million

Nature of Program: The state supplements its operating aid formulas for districts experiencing growth in ADA. Growing districts are protected by Growth aid that proportionally increases a district's formula aid in the current year based on a significant increased average daily attendance (ADA) for the first half of the current year over the ADA for the same period in the base (prior) year.

How Formula Operates: If increase in ADA exceeds 50 pupils and the growth index (1993-94 1st semester ADA / 1992-93 1st semester ADA) is greater that 1.010:

Growth Index in excess of 1.010 x Operating Aid.

Extent of Participation: In 1993-94, 99 districts earned aid under this formula.

Extraordinary Needs Aid

Funding in 1993-94: $370.3 million; first year of this new formula.

Nature of Program: Percentage equalizing. The formula uses an aid ratio based on the district's relative adjusted gross income (AGI) per pupil, applied to a percent of the district's ceiling for operating aid per pupil and distributed on the basis of a pupil count entirely new to New York's school aid statutes. The formula is an about-face from the State's several compensatory education aid formulas of the past wherein districts received aid increases for declining student performance, or conversely lost aid if student performance improved. The new formula uses a pupil measure that attempts to relate aid to student needs that have a high correlation to poor student achievement.

Allocation Units: Pupils. Extraordinary Needs Count equals the sum of three counts that may have some duplication so that the count may exceed the district's enrollment:

1. Limited English Proficient count (the number served in the base year);

2. Lunch count (base year K-12 enrollment x percent of the k-6 enrollment that were eligible applicants for the Free and Reduced Price Lunch Program); and

3. Sparsity Count (for districts operating a K-12 program, base year K-12 enrollment x sparsity factor of (11.5 - enrollment per square mile) / 115, ranging from zero to one-tenth).

How Formula Operates:

Extraordinary Needs (EN) Count x EN Factor x Concentration Factor x
Formula Operating Aid Ceiling x EN Aid Ratio

where:

EN Factor = 10%;
Concentration Factor = 1 + [(Extraordinary Needs Count / Enrollment) - 78.6%], =/> 1;
Formula Operating Aid Ceiling = [$3,761 + .05(District AOE/Pupil=/<8,000 – $3,761)];
EN Aid Ratio = 1 – [.4(District AGI / TWPU) / State average of $77,600].

Extent of Participation: In 1993-94, 660 districts earned aid under this formula.

Tax Effort Aid

Funding in 1993-94: $82 million

Nature of Program: Districts qualify for this aid based on residential property tax effort as a percent of adjusted gross income (AGI).

Allocation Units: Pupils. Total Aidable Pupil Units (TAPU, see Operating aid explanation).

Local Fiscal Capacity: "Residential" Real Property Tax Levy as a percent of AGI. Certain peculiarities are associated with the data: New York does not have a homestead provision in its Real Property Tax (RPT) Law, so that this formula includes residential tax levies on vacation properties in resort type communities, but the AGI denominator is that of the year-round residents; farm houses are inseparable from a farm's agricultural assessment; and apartments and cooperatives are considered commercial.

How Formula Operates: If a district's Full Value Wealth Ratio (see Operating Aid) is less than 2.0, then

Aid = $680 x Tax Effort Percent x TAPU

where:

Tax Effort Percent = [(Lesser of 7% or Residential RPT Levy / AGI)- 3%] / 4%

Extent of Participation: In 1993-94, 194 districts benefitted from this aid program.

Tax Equalization Aid

Funding in 1993-94: $88.9 million.

Nature of Program: Limited power equalizing.

Allocation Units: Pupils. Total Aidable Pupil Units (TAPU, see Operating aid explanation).

Local Fiscal Capacity: Full Value per Total Wealth Pupil Unit (FV/TWPU, see Operating aid explanation).

How Formula Operates: Aid per pupil is the excess of limited district expense per pupil in excess of the sum of the district's operating aid per pupil and a tax yield of $22.50 per thousand of FV/TWPU.

[(District AOE/Pupil=/<8,000) – Operating Aid/TAPU – .02250 x FV/TWPU] x TAPU

Extent of Participation: In 1993-94, 57 districts benefitted from this aid program.

Transition Aid

Nature of Program: During the severe fiscal crisis experienced by New York state in the early nineties, school aid entitlement formulas were "retained" in Section 3602 of the Education Law, but payments were dramatically reduced through a series of equalized[3] Deficit Reduction formulas added to Section 3609. In 1991-92, the Deficit Reduction formulas withheld $925 million, in 1992-93 the net reduction was $1.03 billion.

Several of the operating type aid formulas payable in the 1993-94 school year were either new or modified, and were replacing both old formulas and the Deficit Reductions. However, the new formulas were not entirely "affordable," prompting the enactment of a year-to-year maximum increase provision of three percent (adjusted for growth). In addition, the new formula structures would have resulted in further losses for some districts which was overcome by a save-harmless option which guaranteed that a district would not receive less aid in the current year than it received in the base year.

Both the minimum and maximum Transition Aid provisions were applied to a group of aids (those listed above in this section: Comprehensive Operating, Growth, Extraordinary Needs, Tax Equalization and Tax Effort, and others detailed below in separate sections: Gifted and Talented (Section VIII), Limited English Proficiency (Section IX), Educationally Related Support Services, and Instructional Computer Hardware (both Section X).

How Formulas Operates:

Loss to Maximum (=/<0) = [3% x Growth Index (=/>1) x Operating Aids Base (OAB)] - Earned aids

Due Save Harmless (=/<0) = OAB – Earned Aids

where:

Earned aids = sum current year aid under selected formulas (see above paragraph)

OAB = sum comparable base year aids and net deficit reduction (exclusive of the reduction attributable to Transportation aid)

Districts Off Formula: In 1993-94, 568 out of the 691 major school districts in the state were off formula. Two thirds of those (375) had $326 million in aid withheld under the maximum increase provision, while the other third (193) received $131 million in save-harmless aid in addition to what they earned in the formula aids.

Small Cities Aid

Funding in 1993-94: $87.7 million

Nature of Program: This aid program had its origin in special legislation, initially enacted for the 1979-80 school year, which provided grants to 22 of the school districts partly or wholly within a city having a population of less than 125,000 inhabitants, subject to constitutional tax limits, and adversely affected by a 1979 court decision. At the time that a statewide referendum repealed the tax limits in November 1985, 49 small city school districts were receiving grants that varied from a $50,000 to $10,000,000. Current eligibility for this aid program is limited to the small city school districts that received such a grant or qualified for the formula aid provisions enacted for the 1986-87 and 1987-88 school years. The current formula was enacted for the 1988-89 and subsequent school years, and contains long term phase-out provisions.

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[3] Although all districts lost some aid under these provisions, the Deficit Reduction formulas were designed so that the loss in aid was generally proprtional to the wealth of the district, except that all save-harmless aid was targeted.

Local Fiscal Capacity: Full value of real property tax yield.

How Formula Operates: Formula aid equals the excess of (1) the state share of the district's aidable operating budget minus any scheduled increases in aid over (2) the local share. Aid cannot exceed 98 percent of the prior year state share.

Local Share: This is represented by a minimum local revenue requirement equal to the product of the district's full value and a millage factor (state average tax rate / district tax rate x $0.40).

State Share: This equals the percent of the district's budget supported by Small Cities Aid in the base year. In 1993-94, this ranged from less than a quarter of one percent to more than 20 percent.

Districts Off Formula: In 1993-94, 43 districts received Small Cities aid under a save-harmless option that provides a district a declining minimum percent (98 minus two times the number of years on save harmless) of the district's base year aid.

Extent of Participation: In the 1993-94 school year 50 small city school districts qualified for this aid.

Out-of-District Homeless Students

Funding in 1993-94: $4 million

Nature of Program: Districts educating students whose families were resident of another district at the time the family became homeless are reimbursed by the state for the cost of education of such students.

Allocation Units: Pupils and cost per pupil.

Local Fiscal Capacity: Full Value Tax Levy per pupil.

Local Share: The original district of residence reimburses the state in the amount of its tax levy per pupil.

State Share: The state assumes responsibility for the difference between the host district's cost per pupil and the tax levy of the original district of residence, in lieu of any other aid for such students.

Incarcerated Youth

Funding in 1993-94: $6 million

Nature of Program: Districts in which county jails are located are responsible for the education for students incarcerated in such facilities. They may provide the services directly or by contract with a Board of Cooperative Educational Services (BOCES).

Allocation Units: Pupils. Based on full time equivalent attendance.

Local Fiscal Capacity: Full Value Tax Levy per pupil.

How Formula Operates: Districts responsible for educating incarcerated youth are reimbursed by the state for the cost of education of such students.

Aid = the lesser of the amount expended; or
(Expense per pupil of the host district x FTE pupils) =/ $15,000

where: Expense per pupil =
Approved Operating Expense (AOE) / Total Aidable Pupil Units (TAPU) for Expense (For explanation, see Comprehensive Operating Aid discussion.)

Local Share: The student's district of residence reimburses the state in the amount of its tax levy per pupil. The host district would only be responsible for a local share for its own resident students.

State Share: The state assumes responsibility for the difference between the allocation per pupil and the tax levy of the district of residence, in lieu of any other aid for such students.

III. TRANSPORTATION

Funding in 1993-94: $649.4 million (6.9% of total state school aid).

Description: School districts transport resident pupils to the school the pupil legally attends: public or nonpublic. The state provides equalized aid for a school district's approved contract, public service and district operated transportation expenses including school district bus purchases and operation of garage facilities. Approval is based on capacity, routes, mileage and pupil minimum-distance eligibility. All expenses for the transportation of pupils with handicapping conditions are deemed approved, provided that certain mileage limitations are met.

For many years the state provided aid for approved transportation expenses at a flat rate of 90 percent. During the deficit reduction aid years (1991-92 and 1992-93) the *aid statute* continued the 90 percent provision, but the *payment statute* applied a "deficit reduction" equivalent of a local share: the product of the transportation expense and the remainder of one minus the district's Building Aid ratio, so that the net amount of state aid paid for approved transportation expenses was equalized based on the district's wealth. Commencing with aid payable in the 1993-94 school year, amendments to the transportation aid statute codified the equalized nature of the aid, except that wealthy districts were guaranteed a minimum aid ratio of five percent.

State Share: The state share is expressed as an aid ratio:

1 – .51 x (Full Value / RWADA) / state average of $356,700
but not more than 90% nor less than 5%

where:

RWADA = Resident Weighted Average Daily Attendance, with
1/2 day K pupils weighted at .50
Full Day K through Grade 6 pupils weighted at 1.00
Grade 7-12 pupils weighted at 1.25

Local Share: The local share includes both the unaided approved expense and the unapproved expense, generally for the transportation of pupils considered by state law to live within walking distance of the school they legally attend.

Extent of Participation: All major school districts received this aid.

IV. CAPITAL OUTLAY AND DEBT SERVICE FOR SCHOOL BUILDING PURPOSES

State Aided Programs

Funding in 1993-94: $452 million (4.8% of total state school aid).

Description: Aid is provided to school districts on a percentage equalization (aid ratio) basis for approved expenditures in the base year for capital outlays from the districts' general fund, capital fund, or reserved funds, and in the current year for debt service payments. More than 85 percent of the approved expenditures for Building aid in 1993-94 were debt service expenditures.

State approval of expenditures for construction or purchase of existing structures is based on capacity and labor market indexed cost allowances and includes incidental cost allowance percentages for site purchase and preparation, original furnishings, equipment, machinery, or apparatus, or professional fees; in general, approval for reconstruction or modernizing is set at 50 percent of the allowance for new construction.

Bonding: No bonds or bond anticipation notes (BANS) may be sold prior to the State Education Department's approval of the project to be financed by the obligation. In addition, in accordance with Local Finance Law, bonds may be issued only for lawful purposes for which the state legislature has established a period of probable usefulness in law, and that period regulates the maturity of the bonds.

State Share: The state share is expressed as an aid ratio:

1 - .51 x (Full Value / RWADA) / state average of $356,700
but not more than 90% nor less than zero

(RWADA pupil count is defined under the Transportation Section above.)

Local Share: This equals the sum of any expenditures in excess of the cost allowances and the difference between the approved expenditures and the state share.

Districts Off Formula: Since 1982-83, school districts have annually been permitted to select the higher of the current year aid ratio or the aid ratio used in the base year. Some districts are still using their 1981-82 aid ratio. This option provided an extra $20.3 million in state building aid to 158 districts in 1993-94. Even with this option, 49 districts have continuously had a zero aid ratio.

Extent of Participation: In 1993-94, 581 of a possible 691 major school districts received building aid, 49 had a zero aid ratio and the remainder had no eligible expenses for aid.

V. TEACHER RETIREMENT

Description: The New York State Teachers' Retirement System (TRS) is constituted in accordance with Article 11 of the New York State Education Law, which derived from chapter 503 of the laws of 1920. Employers (public school districts, municipalities, or state agencies employing teachers and similar professionals) are responsible for the collection of employee contributions and for the funding of employer contributions to the system that is a public corporation independent of the state. The city school district of the city of New York maintains its own pension systems.

The system's board establishes the annual contribution rate and determines the annual payments due. The timing and method of payments are governed by law, which includes provisions for the comptroller of the state to withhold some or all of the state aid due a district in order to make payments to the TRS for the district. If a district owes additional sums to the system, a direct payment is made.

VI. SPECIAL EDUCATION

Funding for special education for school age pupils with handicapping conditions (PHC) is provided through several programs that are described below. The cost of programs for preschool children and infants and toddlers with handicapping conditions is shared equally by the state and municipalities and is not included in this section, which addresses state aid to schools. Funding for preschool children with handicapping conditions is discussed under Section XVI — Special Topics

Funding in 1993-94: $1,332.6 million

Public Excess Cost Aid for PHC	$1,150.6 million
Private Excess Cost Aid for PHC	87.9 million
Funding for PHC in State Supported Schools for Blind and Deaf	77.3 million

Funding for July and August programs	80.4 million
Funding for PHC in the Care of the State	34.6 million
Deduct for school district local contribution	(13.6 million)
Offset for Federal Medicaid Recovery	(84.0 million)

Public Excess Cost Aid For Pupils With Handicapping Conditions

Funding in 1993-94: $1,150.6 million (12.3% of total state school aid).

Nature of Program: This formula represents additional operating aid for pupils in Special Education programs operated by public school districts or on their behalf by Boards of Cooperative Educational Services (BOCES), which are organized at a regional level in support of local districts. It is similar to operating aid, but enriched. The per pupil formula uses a percentage equalization (aid ratio, with a minimum) applied to a district's expense per pupil (with limits).

Allocation Units/Weighting Procedures: Pupils. Aid is paid for resident weighted pupils with handicapping conditions. The weightings are based on the time the student spends in special education programs or services:

Time in Special Education Programs or Services	*Weight*
60 percent of the day	1.70
20 percent of the week	.90
Consultant teacher services	.80 (.90 beginning in 1994-95)
2 periods a week	.13

(Note that all of these pupils are included in the basic AADA count for the purpose of generating operating aid, and the same additional weightings are used in determining Total Aidable Pupil Units (TAPU) for Expense.)

Local Fiscal Capacity: Combined Wealth Ratio.

How Formula Operates: Public Excess Cost Aid per Pupil equals allowed expense per pupil (actual district Approved Operating Expense (AOE) per TAPU for Expense up to $6,350) multiplied by the public excess cost aid ratio. Aid per pupil is multiplied by the resident weighted pupils with handicapping conditions. District's are also eligible for Declassification Support Services Aid equal to Public Excess Cost Aid per Pupil multiplied by .13 for the provision of support services to teachers and students in the first year that a student moves from a special education program to a full-time regular education program.

In addition to regular public excess cost aid, districts may be eligible for High Cost Excess Cost aid equal to: the product of the district's public excess cost aid ratio and the student's approved program cost in excess of three times the district's AOE per TAPU for Expense.

State Share: The state share (Public Excess Cost Aid Ratio) equals:

$$1 - (.51 \times \text{CWR of the district}); \text{ but not less than } .25$$

Thus, for the district of average wealth (CWR equals 1.0) the state share is .49.

Local Share: Since the formula recognizes Allowed Expense per pupil, the local share is generally proportional to the district's fiscal capacity, except that wealthier districts are protected by the .25 minimum aid ratio provision.

Districts Off Formula: In 1993-94, 297 school districts received their Public Excess Cost aid under a save-harmless option that guaranteed a district would not receive less aid in the current year than it received in the base year. This provided them with an additional $21.1 million in aid.

Extent of Participation: All major school districts receive some aid through this formula because all districts serve some children with handicapping conditions and therefore qualify for the aid.

Private Excess Cost Aid For Pupils With Handicapping Conditions

Funding in 1993-94: $87.9 million (less than 1.0% of total state school aid).

Description: The continuum of services for pupils with handicapping conditions in the state includes authorization for public school districts to contract with an approved private school when the district committee on special education (CSE) determines, after a review of all public programs, that the approved private school program selected provides the least restrictive environment (LRE) for a free and appropriate public education (FAPE) to which the child is entitled.

The State Education Department is authorized to approve schools to serve children with particular special education needs, and to establish a tuition rate for such programs in accordance with a methodology established pursuant to law and approved by the state director of the budget.

The New York State Education Department also operates two schools (one at Rome for deaf students and one at Batavia for blind and multiply handicapped students). School districts pay tuition for pupils placed at the state schools and are eligible for state aid in accordance with the private excess cost aid formula provisions.

School districts are required to contract at the approved tuition rate and to use a standardized method of proration for a pupil enrolled for less than a full year. Attendance within the period of enrollment is not a factor in the determination of tuition.

(The continuum also includes residential placements. Local social services districts are responsible for the cost of maintenance in accordance with a rate established by the State Department of Social Services which reimburses the local social services district for 50 percent of the cost.)

How Formula Operates: Tuition expense for each pupil in excess of the district's "deduction" is multiplied by an aid ratio to determine tuition aid. The deduction equals the district's tax levy per enrolled pupil.

State Share: The state share (Private Excess Cost Aid Ratio) equals:

1 - (.15 x CWR of the district); but not less than .50

Thus, for the district of average wealth (CWR equals 1.0) the state share is .85.

Local Share: Since the formula recognizes tuition expense per pupil, the local share is equal to the remainder of the tuition expense minus the tuition aid.

Extent of Participation: In 1993-94, 462 districts were paid private excess cost aid for public school pupils placed in approved private schools.

Funding for PHC in State Supported Schools for the Blind and Deaf

Funding in 1993-94: $77.2 million (less than 1.0% of total state school aid).

Description: The continuum of services for pupils with handicapping conditions in the state includes placement at certain state supported schools for blind and deaf and/or students with multiple disabilities. School districts reimburse the state in the amount of their tax levy per enrolled pupil.

Funding for July and August Programs for PHC

Funding in 1993-94: $80.4 million (less than 1.0% of total state school aid).

Description: The continuum of services for pupils with handicapping conditions in the state includes summer programs when the district committee on special education (CSE) determines it necessary. School districts may provide such services either directly or by contract with another public school district, a board of cooperative educational services (BOCES) or an approved private school. School districts are reimbursed by the state for 90 percent the cost of the program.

State Share: Eighty percent.

Local Share: Municipalities (counties or the city of New York) reimburse the state for ten percent of its expenditures for summer programs. School districts are also responsible for ten percent.

Funding for PHC in the Care of the State and Deduct for School District Local Contribution

Funding in 1993-94:

Care of the State	$34.6 million (less than 1.0% of total state school aid).
Deduct	($13.6 million)

Description: All children with handicapping conditions have a right to a free and appropriate public education (FAPE), with access to all levels of the education continuum. Public funding for the tuition for pupils living in child care institutions or community residential programs varies depending upon the responsible agency, and the status of the child.

State Share: The State Education Department is responsible for tuition costs for children in the care of the state Office of Mental Retardation and Developmental Disabilities and the state Office of Mental Health when such children attend programs outside of their residential facility (State and local Departments of Social Services share responsibility for children in their care).

Local Share: Depending on the date of a child's commitment to the care of an agency, the child's school district of residence (definition may vary) is generally required to reimburse the state for its expenses for the education of a child-in-care in the amount of the district's tax levy per enrolled pupil.

Special Education Federal Medicaid Offset

Recovery in 1993-94: ($84 million)

Description: School districts first claimed federal medicaid funding for medically related therapies provided to medicaid eligible pupils with handicapping conditions in accordance with their individualized education plans in the 1992-93 school year. No modifications were made to the state aid formulas for such students; instead, the state enacted an annual offset to school districts' state aid payments equal to one-half of the federal funds.

VII. COMPENSATORY EDUCATION

Set-asides in 1993-94: $322.9 million of Operating and Extraordinary Needs Aid earmarked for Compensatory Education programs.

Description: In an effort to eliminate any suggestion of reward for poor student performance or attendance, various aid programs for pupils with compensatory education needs were replaced by operating aid set-asides: (1) for school districts with attendance ratios in the bottom ten percent of all districts statewide; (2) for the 25 percent of districts with the greatest percent of students falling below the statewide reference point on certain pupil evaluation program tests in the prior school year; and (3) for the reduction of kindergarten through grade three class sizes in the state's big 5 city school districts (cities with a population greater than 125,000 inhabitants).

The set-asides impose planning and reporting requirements on the affected districts, and are directly proportional to the degree of the problem; hence, improved attendance or performance provides districts with increasing flexibility.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $13.39 million (less than 1.0% of total state school aid).

Description: School districts that provide a program in accordance with State Education Department regulations are eligible for this aid equal to a flat grant of $196 times three percent of the district's ADA.

Extent of Participation: All districts with programs participated in 1993-94.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $59.6 million (less than 1.0% of total state school aid).

Description: All school districts are required to have a plan for serving limited English proficiency (LEP) pupils. The type of program (bilingual or English as a second language) provided depends on the number of pupils sharing a language other than English. Districts may provide the programs directly or by contract with a board of cooperative educational services or another school district. Districts that provide an approved program are eligible for LEP aid equal to 15 percent of the per pupil operating aid paid to the district times the number of LEP pupils served in the program. In addition to the $48.67 million paid through the LEP formula, $10.95 million was available through competitive grants for bilingual programs in 1993-94.

Extent of Participation: In 1993-94, 187 districts participated in the program.

X. OTHER CATEGORICAL PROGRAMS

New York State funded 90 programs ranging from grants of $5,000 to reimbursements of $272 million. These programs are summarized here in 11 categories.

Shared Services Aid

Funding in 1993-94: $272.3 million (2.9% of total state school aid).

Description: School districts other than the Big 5 city districts are eligible to join a Board of Cooperative Educational Services (BOCES), which is governed by the component districts in accordance with education law. The BOCES is authorized to provide services to two or more districts upon request.

District expenses for most shared services and the district's share of most BOCES administrative expenses are eligible for "BOCES operating aid" (special education services are the main exception, see Public Excess Cost Aid description). The BOCES can acquire, construct, or lease facilities and the district's share of the costs are eligible for "BOCES facilities aid." Statute limits allowable salary expenses for aid purposes to $30,000 per employee.

BOCES provide many occupational education programs as well as special education, limited English proficiency (LEP), and selected academic programs provided by itinerant teachers and distance learning networks. In addition, they provide many management services such as computer processing and purchasing, especially for smaller districts.

Extent of Participation: The Big 5 city school districts are prohibited from belonging to a BOCES, but they are eligible for a Special Services aid in lieu of BOCES aid. In addition, ten others districts did not belong to a BOCES in 1993-94, by choice. (Once a district joins, they must remain a component of the BOCES.)

Big 5 Special Services Aid

Funding in 1993-94: $124.6 million (1.3% of total state school aid).

Description: The state's five large city school districts (in cities with a population in excess of 125,000 inhabitants) receive Special Services aid in lieu of Shared Services aid since they are not eligible to join a board of cooperative educational services (BOCES). There are two categories of Special Services aid: (1) aid for high school students pursuing occupational education programs; the aid ratio formula uses a proxy for expenditures, allowing $3,270 per student in trade, industrial, technical, agricultural, or health sequences, and $523 per student in sequences in business and marketing; and (2) computer administration aid equal to the product of an aid ratio and approved expenses, but not more than $56.45 per enrolled pupil.

Extent of Participation: Only the Big 5 city school districts receive this aid.

Supplemental Pupil Services Programs

Funding in 1993-94: $260.3 million (2.8% of total state school aid).

Description: A variety of 17 programs provide additional state aid either through formulas such as Educationally Related Support Services, reimbursements such as the School Lunch and Breakfast Program, or grants such as those for Magnet Schools. The focus of this group of programs is youth at risk of school failure or dropping out. Most of these programs are supported by separate annual budgetary appropriations, although some are entitlement based on education law.

Extent of Participation: The opportunity to participate in programs varies from programs providing funds to one specified district, to programs targeted to the Big 5 city school districts, to open competitive grant programs, to formula programs available to all districts electing to participate.

Teacher Support Programs

Funding in 1993-94: $89.3 million (less than 1.0% of total state school aid).

Description: Excellence in Teaching (EIT) aid accounts for $69.0 million of these moneys and is paid to school districts through a combination of grants (to the Big 5 city school districts) and a percentage equalized (aid ratio) formula. EIT aid is used exclusively for teacher salary supplementation, first, if necessary, to bring beginning teacher salaries up to regional medians, the remainder to increase the salaries of all district teachers in accordance with a negotiated agreement between the school district and a certified or recognized employee organization. EIT aid for teachers in boards of cooperative educational services (BOCES) is based on the average EIT aid per teacher of the component districts of the BOCES and accounts for an additional $2.9 million in EIT aid. The remainder of this funding is available as competitive grant funds for Comprehensive Instructional Management Systems (CIMS), $5.5 million, and Teacher Resource and Computer Training Centers, $12 million.

Extent of Participation: All school districts and BOCES are eligible to apply for EIT aid.

Instructional Materials Aid

Funding in 1993-94: $110.8 million (1.2% of total state school aid).

Description: School districts are eligible to receive funds for the purchase and loan of instructional materials to students in public and nonpublic schools. Aid equals the lesser of actual expenses or: $30 per pupil for textbooks, $3 per pupil for instructional computer software, and $2 per pupil for library materials.

Extent of Participation: All school districts received this aid.

Adult Education

Funding in 1993-94: $93.7 million (1.0% of total state school aid).

Description: The Employment Preparation Education (EPE) Aid program provided $86 million to school districts for educational programs for adults (age 21 and over) without a high school credential. Aid per instructional contact hour is equal to the product of the district's EPE aid ratio and the annual state average expense per pupil for elementary and secondary education programs divided by 1,000. In 1993-94 EPE aid per hour in a district of average wealth equalled $3.30. Districts may provide the programs directly or by contract with a BOCES. Districts may also apply for a portion of the $3.2 million available through several competitive grant programs to help meet their local share. Additional funds are reserved for community based organizations providing literacy programs.

Instructional Computer Hardware

Funding in 1993-94: $11.5 million (less than 1.0% of total state school aid).

Description: Instructional Computer Hardware and Technology Equipment aid provides equalized aid as a reimbursement for approved expenses up to $8 per pupil.

Extent of Participation: All districts are eligible to participate in this program.

Technology Infrastructure

Funding in 1993-94: $10 million (less than 1.0% of total state school aid).

Description: Two programs support computer/telecommunications network building and related software development for student related and financial applications as well as electronic mail and reporting between and among school districts and the state. The Student Information System aid program funded $9 million in projects in the Big 5 cities and the Technology Network Ties program funded $1 million through BOCES to support development in the rest of the state.

School District Reorganization Incentives

Funding in 1993-94: $21.6 million (less than 1.0% of total state school aid).

Description: School districts may apply for Reorganization Study grants and if district voters agree to consolidate two or more districts, one of which operates a high school, they become eligible for Reorganization Operating and Facilities aids. The aid programs provide a percentage increment on top of regular operating aid or building aid for eligible projects undertaken as a result of the reorganization. The aid is available over a period of years, and the percent for operating begins to decline after the first five years.

Extent of Participation: About 50 districts received reorganization incentive aids in 1993-94, while 14 districts that were involved in studies received Reorganization Study Grants.

Education of Native Americans

Funding in 1993-94: $12.5 million (less than 1.0% of total state school aid).

Description: New York State provides for the education of some 2,500 Native American students living on nine Indian Reservations through contracts with 13 public school districts. The districts in turn may subcontract with boards of cooperative educational services for some services to the students. Transportation contracts with commercial carriers and contracts for the operation of state owned busses are in place to meet the needs of these students. The provision of services includes three state-owned Indian reservation schools operated by neighboring school districts under contracts with the state.

Grants to Specific Districts or Programs

Funding in 1993-94: $9.5 million (less than 1.0% of total state school aid).

Description: The state local assistance budget affecting the 1993-94 school year included about 50 grants totalling $9.5 million. The grants are prescribed for a specific school district or group of school districts, or schools or programs within a district. (Additional grants are included in the elementary, secondary, and continuing education budget for projects outside of school districts, for example grants for identified public libraries to supplement formula funds.)

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-94: $57.1 million (less than 1.0% of total state school aid).

Description: In 1974, in recognition of the substantial number of pupils complying with the compulsory education law by attending nonpublic schools, legislation was enacted to reimburse nonpublic schools for the actual costs they incurred in providing services to the state which the schools are required by law to render in connection with the state's responsibility for reporting, testing and evaluating the effectiveness of instruction. Claims submitted for expenses in the 1992-93 school year became payable in 1993-94.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $47 million (less than 1.0% of total state school aid).

Description: The state began appropriating funds for a developmental pre-kindergarten competitive grant program with $5 million for the 1966-67 school year. Periodic increases have provided for continual maintenance and expansion of the program. In a number of areas, boards of cooperative educational services (BOCES) operate the program as a shared service for two or more school districts. Funded programs must comply with regulations of the commissioner of education as adopted by the New York State Board of Regents. The regulations are designed to insure quality developmental programs for economically and/or educationally disadvantaged children, and strong outreach to and involvement of the parents of participating children. Selection includes consideration of the concentration of such children within a district or group of districts.

Extent of Participation: In 1993-94, more than 12,500 children in more than 100 school districts participated in the program.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the principal source of local funding for school districts. In 1993-94 it accounted for $12.14 billion. (Approximately 250 school districts also levy a property tax to support a local public library, this accounted for an additional local property tax of $161 million in 1993-94.)

The imposition of property taxes preceded statehood in New York. Statutes clearly directed assessors that property was to be assessed at full value. In spite of numerous court decisions and recommendations from various legislative and executive commissions, fractional assessments remained the rule. In 1959 the State Board of Equalization and Assessment was established, and by the mid-seventies, while state equalization rates were accepted as proof of the level of fractional assessments in assessment inequality cases, the courts again affirmed the requirement of full value assessing.

In 1981 after a series of legislative efforts were struck down by the courts, New York's full value standard was replaced with a uniform percentage of value assessment standard. The accuracy and currency of the state equalization rates are naturally very important, but local assessment practices among the more than 1,300 assessing units in the State are still the key to equitable distribution of local tax levies. There are nearly 3,000 school district segments when the 1,300 assessing units are subdivided by the boundaries of New York's 691 school districts. Some of the segments are very small and regularly suffer dramatic changes in tax rates. Clearly, property tax administration is essential to distribution of both local tax liability and state aid.

Variations in Local Fiscal Capacity. A levy of $1.00 per thousand of full value can raise less than $50 or more than $20,000 per pupil (the median is $231, while the average is $304) because of the wide range of property wealth per pupil between school districts in New York State.

Residential property value as a percent of property value for all classes varies from six percent to 100 percent, while the median is 63.5 percent. School districts with significant non-residential tax bases may have to live with side effects such as traffic, noise, and pollution, but they also reap exclusive tax advantages by "exporting" or transferring some of the burden of local taxation to consumers who live outside of the district.

The statewide median full value tax rate on residential property for school purposes is $13.55 per thousand, but this varies from a low of $1.65 to a high of $30.20. This has a direct impact on taxpayers' available "disposable" income.

Non-property taxes. In 1993-94 an additional $202.2 million in non-property tax revenues helped support approximately 175 school districts. Most non-property tax revenues derive from distribution of some portion of the local county sales tax prorated based on the number of public school pupils residing in the county and enrolled in the various school districts partly or wholly located within the county. A few small city school districts also benefit from the proceeds of a utility tax.

Tax Credits and Exemptions

New York State statutes authorize two mechanisms to provide property tax relief to fixed and low income residents. One centers on the adoption of local exemptions, the other provides direct State to taxpayer relief.

State

Funding in 1993-94: $46 million

Current provisions of the State Tax Law (Section 606) provide a State income tax "circuit breaker" credit for total local property taxes paid by low income households, including those who rent. The credit is available to taxpayers throughout the State and the cost of the program is borne entirely by the State. The benefit level ranges from a maximum of $375 for a household with an income of $1,000 or less to $86 for a household with an income between $17,000 and $18,000. There is a maximum property value ($85,000) or rent ($450 per month) for eligibility.

Local

The option of local taxing jurisdictions to provide various exemptions may grant some relief to fixed and low income residents. However, exemptions may not be a real option when the majority of residents are poor and commercial property is limited. In addition, such exemptions do not help those who rent and have school taxes passed along as part of their rental cost.

In general, the exercise of local-option exemptions, as allowed by the Real Property Tax Law, requires formal action by the affected taxing jurisdictions, including counties, municipalities and school districts, through adoption of a "negative" or "positive" local law, ordinance or resolution after a public hearing. Four major types of local-option exemptions were specifically highlighted in the 1993 report *Exemptions from Real Property Taxation,* issued by the New York State Division of Equalization and Assessment (since renamed the Office of Real Property Services). They were:

> The Business Investment Exemption (Section 485-b RPTL); automatic, statewide unless disallowed; in 1991, 390 school districts chose, through formal resolution, *not* to grant this exemption;
>
> The Exemption for Persons Aged Sixty Five or More (Section 467 RPTL); in 1991, 678 school districts allowed some form of local property tax exemption under this section;
>
> The Exemption for Disabled Persons (Section 459 RPTL); this option was authorized in only 98 school districts in 1991; and,

Exemptions for Veterans (Sections 458 (1)(2)(3)(5) and 458-a of RPTL); *no exemption from school taxes* is provided for under this section.

While these four exemptions accounted for only 11 percent of exempt property value of the 1991 assessment rolls, according to the report, they are by far the most significant in terms of local beneficiaries; comprising approximately 45 percent of the exemptions granted and approximately 79 percent of all local option exemptions on the 1991 assessment rolls.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Only the five largest cities have constitutional tax limits, and the limits apply to the total municipal budget. Small city school districts (cities with a population of fewer than 125,000 inhabitants) had their constitutional tax limits repealed in 1985.

Spending Limits

None.

Voter Approval of Budgets and Bond Issues

Budgets. Except for city school districts, property tax levies are established after voter approval of school district budgets or school board adoption of a limited "contingent" budget after voter defeat. Small city boards of education adopt budgets without voter approval. The Big 5 cities include education in their municipal budget.

Of the 637 school districts that voted on school budgets for the 1993-94 school year, 460 or 72 percent passed their budgets on the first vote. After a budget defeat, the board of education or trustees may submit the same budget or a modified budget, with or without special propositions, to the voters.

Adoption of a "contingent budget" assures sufficient tax levy to meet the district's contractual obligations while precluding spending on interscholastic athletics, field trips, co-curricular/extracurricular activities, student supplies, transportation for distances shorter than those for which transportation is mandated, school bus purchases, and the like. Propositions may be put before the voters to authorize additional tax levy for one or more non-contingent expenses.

Propositions may be advanced in conjunction with adoption of a contingent budget or in conjunction with a subsequent budget vote. There is no statutory limit on the number of revotes that may be taken.

Of the 177 districts experiencing initial budget defeats, 80 passed a modified budget on a revote: 50 passed on a first revote without propositions; 13 passed on a first revote with one or more propositions; 17 passed on a second revote without propositions; and 3 passed on a second revote with one or more propositions.

Twenty districts eventually adopted contingent budgets, while 77 districts adopted contingent budgets and passed one or more propositions. Three quarters of the districts that supported propositions voted to provide more than the mandated transportation.

Bond Issues. Except in city school districts, a majority of the participating voters must authorize the board of education to undertake any acquisition, construction, or reconstruction of facilities for school purposes. The vote includes authorization for any bonding to be undertaken in conjunction with such projects. In city school districts voter approval is not generally required, and the board of education is empowered to undertake such actions.

XV. EARMARKED STATE REVENUE

All net revenues from the state lottery are statutorily earmarked for school aid.

XVI. SPECIAL TOPICS

Programs for Preschool Children with Handicapping Conditions

Funding in 1993-94: $251.8 million (2.7% of total state school aid).

Description: School districts have no fiscal responsibility for the special education programs and services provided to eligible preschool children with handicapping conditions, ages three through five. However, they are responsible for the identification of such children, arranging for evaluations, and determination of an eligible child's Individualized Educational Program (IEP).

The municipality in which a preschool child resides must contract for the programs and services (including transportation) required by the IEP, must pay the provider (nearly all private) in the first instance, and claim reimbursement from the State Education Department. The Department reimburses the municipality for a percent of the approved expenses. Eligible services provided prior to July 1, 1993 were reimbursed at the rate of 50 percent. Services provided in 1993-94 were reimbursed at a rate of 59.5 percent, thereafter, the rate will be 69.5 percent.

In addition to reimbursement for direct services provided to eligible children, the state supports regional Early Childhood Direction Centers to assist parents in seeking appropriate services for their disabled child. In 1993-94 the state allocated $1.1 million for the Centers.

In New York State, the State Health Department has oversight responsibility for programs and services provided to infants and toddlers with disabilities. Municipalities have responsibility for all aspects of the program at the local level and are reimbursed on a fee for service basis by the Health Department.

NORTH CAROLINA

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I. GENERAL BACKGROUND

State Support

- The Public School Fund (PSF) is appropriated from state general fund, derived mainly from state income and sales taxes, as designated by the North Carolina General Statutes and State Board of Education policy. The percentage of state support for public schools has remained relatively constant for the past ten years, ranging between a low of 64 percent in 1983-84 and a high of 70.2 percent in 1989-90.

- The School Machinery Act of 1933 established a state system of school finance in North Carolina that has remained virtually unchanged. State funds for public Pre-K-12 schools are provided solely through annual appropriations and flat rate grants. Funds are distributed according to personnel allotments determined on the basis of Average Daily Membership (ADM). Beginning in 1991, some adjustment is made for relative wealth and local tax effort.

- Of the total current expenditures for public education, 67.9 percent were derived from state sources, 23.5 percent from local sources, and 8.6 percent from federal sources based on 1992-93 revenues. (Local revenue data for 1993-94 were not available until December 1994.)

- There are 62 different categorical funding codes. While several pilot sites attempted flexible funding in the 1983-84 school year, the School Improvement and Accountability Act of 1989 (SIAA) provided the first widespread attempt at allowing local district flexibility in the movement of funds between line items. SIAA was created to invite more local participation in setting accountability measures in exchange for local budgetary control to meet increased expectations. In 1992-93, the North Carolina General Assembly renamed SIAA the Performance-Based Accountability Program (PBAP). The legislation that created this name change also increased accountability through local school accountability reports, increased requirements for parental participation, and greater levels of local school decision making.

- In 1985, the Basic Education Program was enacted by the North Carolina General Assembly to increase the level of base support for local districts. While the formula was not an equalization of funding, BEP attempted to define certain minimal programs, such as music, art, physical education, foreign language, and media services, that should funded and provided in all schools. The BEP also included increased support staff and administrative funding.

- A group of small (less than 3,000 ADM) school systems and rural systems whose limited property tax base places them in low wealth categories have received a regular appropriation from the state. The 1992-93 appropriation of $9 million and 1993-94 appropriation of $18 million for low wealth and small school systems was an attempt by the state to provide greater equity in state funding. In spite of this special appropriation, in May of 1994, five low wealth county school districts filed suit in state court claiming denial of constitutionally guaranteed rights to receive adequate and equitable educational opportunities. In October 1994, fearing a settlement that might adversely affect all state funding, six large, urban districts attempted to join the suit. The outcome of both the urban districts action and the original suit is still pending.

Local Support

- In 1993-94, the state had 120 separate school districts, established one per county for 100 counties plus 20 specially chartered city units. Of these, 118 were fully fiscally dependent. Two city districts have school boards empowered by the state legislature to set a local supplemental school tax rate without approval from the local county or city government council.
- Property and local sales taxes constitute the primary sources of local revenue. The state passed local option sales taxes in 1983 and 1986 that provided for restricted minimum funding at 30 percent and 60 percent, respectively, for school construction. Each of those sales tax restrictions were to expire at the end of ten years. In 1993, the North Carolina General Assembly extended the use of each of these sales taxes for school construction for an additional five years.
- Out of $1,682.3 million raised locally for public schools, $1,087.3 million was derived from county appropriations and local supplemental school property taxes (based on 1992-93 revenue collection data). Thirty systems have passed local supplemental school taxes in their districts. Taxes on sales and intangibles provided an additional $36 million. Other receipts were derived from fines and forfeitures, ABC revenues, and other miscellaneous sources. All figures in this section include expenditures for both current expense and capital outlay.

Funding Summary, 1992-93*

Total State School Aid (All Programs)		$3,717 million
Grants in aid	3,321 million	
Teacher retirement contributions	228 million	
FICA	168 million	
Total Local School Tax Revenue		$1,682 million
Property tax revenue	1,087 million	
Other local source tax revenue	36 million	
Local source non-tax revenue	559 million	
Total Combined State and Local School Revenue		$5,399 million
State-financed Property Tax Credits Attributable to School Taxes	0	

* Funding information for the 1992-93 school year was the most recent funding data available. The program descriptions are for the 1993-94 year.

II. BASIC PROGRAM SUPPORT

Public School Fund

Funding in 1993-94: $3,564.5 million (95.9% of total state school aid).

For all practical purposes, all current expense funding is provided through the basic support program.

Nature of Program: Flat Grant. In this modified funding program funds are allocated on an adjusted flat grant basis. The adjustments attempt to advance equity by providing actual personnel costs based on state allotted positions rather than a uniform amount per position and recent funding adjustments for small and rural systems.

Allocation Units: Pupils in Average Daily Membership, either projected or for the previous year.

Local Fiscal Capacity: No local fiscal capacity measure is used in the distribution of basic support aid.

How Formula Operates: The basic formula provides for a district allotment in line item categories of funding. Most categories are aided based on district average daily membership (ADM), either projected or for the previous year, or based on the district's percentage of statewide ADM. The state allotment of funds is initially projected prior to the adoption of the state budget based on expected ADM, and adjusted when the state budget is passed by the General Assembly. On the tenth school day, additional adjustments may be made where the district's enrollment has increased or decreased from the projected figures.

There is no systematic method of assigning a formula for state aid that is consistent for all categories. Most funding is based on ADM (teaching positions, textbooks, and instructional supplies), some by district lines (superintendent and finance officer positions), some by months of employment (vocational teachers and assistant principals), and some by competitive grant (safe schools and drug prevention programs).

Some of the funds are allocated by position without regard to the cost of the position. In other categories, the funding formula is an allotment of dollars. Certified staff are allocated by position. Teacher assistants, other noncertified staff, staff development, and benefits are allocated by dollars. Assistant principals are allocated by months of employment. Finance officers and some instructional supervisory positions are allocated one per county. In counties where there are more than one school district, the local district receives its pro rata share of a finance officer salary based on district percentage of county ADM, and must pay the balance of the salary of that district's finance officer from local funds.

State Share: Since the state assumes full responsibility for the education of students in North Carolina, it is obligated for a minimum funding level of 100 percent of the theoretical base required for the district's current expense requirement. The state assumes limited responsibility for capital costs, however, with the county or city governmental unit assuming most of those costs. Some of the maintenance and operational costs (custodial and maintenance salaries) are shared by both entities. The state and local government have been trying for some years to establish the appropriate philosophical location and level of responsibility for capital outlay needs.

Local Share: No local contribution is required for basic program support. Although none is required for current expenditures, all counties provide some assistance. The statewide average for local contribution to current expense is 23.5 percent of the total annual budget. Capital outlay is currently assumed by local government with some funding provided by the state based on ADM and local sales taxes collected.

Weighting Procedures: Grade level weighting occurs in the formula allocating classroom teachers based on a class size ADM expectation in grades K of 1:23, grades 1-9 of 1:26, and in grades 10-12 of 1:28.425. Regular classroom teacher assistants are allocated to K-3 grades only, in a dollar amount based on ADM.

Adjustment for Special Factors: In 1991, the General Assembly allocated funds for local school districts considered to be in low wealth areas or unable to operate efficiently because of the relatively small and geographically isolated nature of the school district. The formula used a regression model based on the property weighted sales potential, agricultural use value, existing utilities, and county personal property and developed a statewide readjusted average property tax base per student. Eligible systems receiving full funding then were required to have a property tax rate at or better than the state average.

The state has also generally made adjustments for specialized districts that are required to operate extremely small schools or contain hospital schools. Districts with extraordinary circumstances can appeal to the state board for additional allocations.

Aid Distribution Schedule: In March of each year, local education agencies are notified of their anticipated allotments for planning purposes. These are based on a continuation formula from the prior year and new ADM projections. Within two weeks following the adjournment of the state legislature, allotments are made to all districts in the form of funds that they can draw against. On the tenth day of the school term, actual daily membership is used to adjust the allotment up if necessary.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $157.8 million (4.4% of the PSF).

Description: Districts receive direct aid from the state for the purchase of buses to be owned by the local school district. Replacement buses, funds for the operation and repair of buses, and the employment of personnel are provided by the state. The state uses a "budget rating" formula to calculate the efficiency of local districts' transportation systems. Based on such factors as pupils transported, total eligible operating expenses (local and state funds), legislative adjustments for salary and fuel costs, and numbers of buses operated, the state allocates dollars according to the previous year's approved annual budget, adjusted downward if necessary by the efficiency rating of the district's transportation system.

Because of the more frequent periodic fluctuations in ridership, special funds are allocated for the transportation of special education and summer school students based on local determination of need.

State and Local Shares: Local districts may, but are not required to supplement driver salaries and fuel cost allocations. While districts can buy additional buses from local funding, the state must approve these purchases.

Extent of Participation: 120 school districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Aid is provided for capital outlay funding for construction of facilities through three state sources: the state's Public School Building Fund, the state's Critical School Facility Needs Fund and two local option state sales tax distributions. Other capital outlay funding comes from local sources and may be from local county appropriations, sale of bonds, and accumulated cash reserves.

Public School Building Fund. The state makes a quarterly payment of $250 million plus 1/7th of the monthly corporate income tax collections to local school districts through its Public School Building Fund. These funds are allocated to the local county governmental unit based on county ADM for redistribution to districts. Local county commissioners are not required to allocate to districts by ADM but must authorize the funds only for use in state approved capital construction projects.

Critical School Facility Needs Fund. The state Critical School Facility Needs Fund is endowed by a one time grant of $40 million plus a quarterly payment of $2.5 million. Local school districts may apply for grants from the Critical School Facility Needs Fund to meet a local district critical need dictated by state building standards. Grants are made to districts perceived to have the greatest critical building needs as determined by the district's inability to meet statewide school facility minimum standards from other sources of capital funding.

State Sales Tax. In 1983 and 1986, the state passed Article 40 and 42, respectively, which authorized local sales tax referendums to give county governments the option of levying a one cent addition to the state sales tax. Under each Article, the sales tax restriction carried a ten year limitation, restricting a portion of the tax to use for school construction. The restricted portion of Article 40 was 30 percent in 1992-93 and the restricted portion of Article 42 was 60 percent.

In 1993, the legislature reauthorized both articles for an additional five years for use by local county government for school construction.

Periodically, the state has authorized statewide bond referenda for school construction, the most recent of which was approved in 1980.

Local Capital Project Financing

Districts may also fund capital outlay programs through a local pay-as-you-go plan that requires a long term commitment by the school district and its fiscal authority, the county commission. Since this method requires agreement of both the district and the local governmental body, it provides the most local autonomy. It is unduly limiting to low wealth and rural districts due to a limited property tax base. Of the local revenue sources, bond sales are the most common source of capital outlay funding methods for school construction. Bonds require voter approval and are regulated by the local county commission. In establishing limits for bond sales, the local district is restricted to a maximum debt ceiling of 8 percent of the tax base in each county.

The State Literary Fund provides short term loans to districts for emergency capital outlay needs. The maximum loan amount per county is $300,000 for a period of ten years. Additionally, the Literary Fund limits the loan amount to the maximum legal bonding capacity of the district and sets a ceiling of 2/3 of the previous fiscal years' net debt reduction. Loans from the State Literary Fund are subject to the availability of funds.

V. TEACHER RETIREMENT

Funding in 1993-94: Retirement: $243.1 million (6.8% of the PSF).
FICA $173.2 million (4.9% of the PSF).

Description: The State Public School Fund is appropriated benefits in total for retirement, social security, hospitalization, and longevity. Benefits are distributed to designated groups based on the percentage of all personnel associated with each group. Other appropriated benefits in 1993-94 were: longevity $33.5 million, social security $173.2 million, and hospitalization $153.2 million. The state allocates each of the benefits categories to local districts.

State and Local Shares: Membership in the retirement system is mandatory for each state employee. The state contribution for retirement for each employee was 10.96 percent in 1993-94. This figure varies annually according to the fiscal health of the state retirement fund. A matching six percent is required by the employee, which is deferred from payment of state and federal taxes. There is no local match for state paid positions.

VI. SPECIAL EDUCATION

Funding in 1993-94: $300.3 million (8.4 % of the PSF).

Description: There are four separate categories of state aid for exceptional children: The exceptional child program allotment, group homes allotment, the developmental day care program allotment, and the preschool handicapped program allotment.

The standard program allocates funding based on the lesser of the April 1 headcount or an overall 12.5 percent of the prior year ADM cap for handicapped students multiplied by a funding factor of $1,956.52. The number of handicapped students above 12.5 percent is funded based on a funding factor of $418.76. In addition, each district receives funding based on the lesser of the June 1 Academically Gifted head count or 3.9 percent of the prior year actual ADM multiplied by one-third of the funding factor allowed for handicapped. This equates to a funding factor of $652.17 per academically gifted child.

The Group Homes allocation provides $102,000 in funds based on applications submitted for the cost of children, ages 3-20, residing in group homes. Applications must be approved by the Exceptional Children Support Team.

The developmental day care program allocates $3.8 million in state funds for special education and related services to eligible handicapped students, ages 3-20, who are placed in developmental day care centers by the local school district.

The preschool handicapped program allocates $22.2 million in state funds for 3- and 4-year-old handicapped children based on one average state teacher salary per district plus related benefits, with remaining available funds distributed based on 5 percent of K-12 ADM.

State Share: State and federal allocations constitute 100 percent of the required exceptional children funding.

Local Share: No local share is required except as needed to provide adequate programming to all eligible children. Some districts share responsibility for specific program areas with neighboring districts.

Extent of Participation: 120 districts.

VII. COMPENSATORY EDUCATION

In addition to the state initiatives listed below, state aid to schools includes federal grants for several compensatory categories.

Remediation Support/Summer School

Funding in 1993-94: $39.0 million (1.0% of the PSF).

Description: The state provides a combined appropriation of summer school and remediation support for local districts allocated at a base of $20,000 with the remaining distributed equally to each district by eligible ADM. Eligible ADM for summer school is determined to be the average of scores on the 1989-90, 90-91, and 91-92 California Achievement Test (CAT) for children in grades 3, 6, and 8 who fall below the 25th percentile. Transportation funds for summer school are allotted based on approved operating budgets for July/August and the following June summer session. The remediation funds allotment formula states that 60 percent of the available funds are allotted based on the most recent tenth grade Competency Test failures; the remaining 40 percent distributed based on the numbers of students who scored below the 35th percentile on prior year eighth grade California Achievement Test (CAT). There is no required local match.

Extent of Participation: 120 districts.

Dropout Prevention/Students At Risk

Funding in 1993-94: $29.5 million (less than 1.0% of the PSF).

Description: Each district earns one Instructional Support position per eligible school with remaining funds distributed equally based on grades 7-12 ADM.

Extent of Participation: 120 districts.

Willie M. Class

Funding in 1993-94: $3.7 million (less than 1.0% of the PSF).

Description: Following a state lawsuit, this category was created to address students younger than 18 years old with special needs beyond the scope of traditional exceptional child programming in the functioning categories dealing with violent or assaultive behavior. Districts are funded based on requests for each classified Willie M. child funded in 1989-90. The formula is adjusted for add-ons for Special Education children — state aid, federal funds, and ADM.

Extent of Participation: All districts are eligible to apply.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: Funding cannot be disaggregated because of its inclusion in the total Exceptional Child Program budget.

Description: Funding in this category is included in a district's state Exceptional Children allocation. The 1993-94 allocation was $652.17 for each eligible student.

IX. BILINGUAL EDUCATION

Funding for Bilingual education is offered through basic program support. Districts are encouraged to offer English as a second language and foreign language programs for both elementary and secondary students but receive no special funding to do so. Participation is subject to local control and cannot be determined as a separate funding item.

X. OTHER CATEGORICAL PROGRAMS

Performance-Based Accountability Program Funds

Funding in 1993-94: $38.8 million (1.0% of the PSF).

Description: PBAP funds were provided for local school districts to develop accountability and performance-based pay plans for all certified employees in the district. Participation was voluntary by each district. After accountability and performance based pay plans are accepted by the district and state, state accreditation was waived and certain state and local accountability goals were established. The state required that 54 specific performance indicators related to the statewide testing program be adopted and, in exchange, the state provided an additional two percent of the district's gross certified salary to the district to be redistributed in a performance-based pay program. The plan was developed by affected employees and approval required an affirmative vote by 51 percent of the affected employees plus the local board of education.

Funds were allotted in two categories. The first, Consolidated Funds, combined allocations of instructional materials and supplies, equipment, library technology, and testing support into one category. Districts also received a one time nonrecurring allocation of $2.22 per ADM. Testing support was provided based on a minimum of $250 plus add-on support for each ADM in excess of 3000. Library technology funds were provided in the amount $4.44 per K-12 ADM. A second category, Differentiated Pay Funds, were provided based on 2 percent of the district salaries of certified personnel for the sixth pay period of the 1992-93 FY.

Extent of Participation: 120 districts.

Vocational Education

Funding in 1993-94: $163.6 million (4.6% of the PSF).

Description: State vocational support was provided in four funding categories: State Months of Employment, Benefits Costs, Program Support, and Tech Prep Education.

Each local school district receives a base of 50 months of employment. Additional funding provides months of employment to districts based on ADM in grades 7-12. Funds may be used for employment of teachers, administrative support, and purchase of supplies and equipment.

Program support funds to modernize and expand vocational education programs were provided based on $10,000 per LEA with remaining available funds allocated based on ADM in grades 7-12.

The state provides discretionary funding subject to State Board of Education approval and the availability of funds for consortia of LEAs and post-secondary institutions to develop four year tech-prep education programs. Eligibility was limited to districts that had applied for but never received tech-prep funding in the past.

Extent of Participation: 120 districts.

Staff Development

Funding in 1993-94: $8.7 million (less than 1.0% of the PSF)

Description: Local school districts each receive an equal allocation representing 25 percent of the total appropriation in this budgeted item. The additional 75 percent is allocated based on ADM. All funds are to be used for staff training. In addition, districts classified as Low Performing districts received $56.47 per day for each certified teacher for six additional days ($339 per teacher) of staff development. Warning Status districts received $56.47 per day for each certified teacher for two additional days ($113 per teacher) of staff development.

Extent of Participation: 120 districts.

Dropout Prevention

Funding in 1993-94: $29.5 million (less than 1.0% of the PSF).

Description: Each eligible school receives an allocation equivalent to one position for the employment of an instructional support position. The remainder of the funds are allocated equitably based on grades 7-12 ADM.

Extent of Participation: 120 districts.

Alcohol and Drug Defense

Funding in 1993-94: $3.0 million (less than 1.0% of the PSF).

Description: All funds are to be used for drug education and drug related social education programs and are allocated by competitive grants.

Extent of Participation: 120 Districts.

Career Development Pilot Sites

Funding in 1993-94: $28.3 million (less than 1.0% of the PSF).

Description: In 1985, the state began 16 career ladder developmental pilot systems. Beginning with an initial five percent salary increment, the pilot systems paid teachers for successfully implementing the components of a career ladder and professional development plan. In 1990-91, legislation was passed to begin phasing in a seven percent cap on the increments available to the pilot systems. This cap is intended to equalize salary increments in career ladder pilot systems and districts that opted for PBAP performance-based pay plans. In 1993-94, the Career Ladder salary cap was seven percent. Two of the city districts had consolidated with county districts and special legislation allowed the funding to continue but only at the funding level of the previous city district.

Extent of Participation: 16 districts.

Child Nutrition

Funding in 1993-94: $12.5 million (less than 1.0% of the PSF).

Description: Each local school district is allocated one position based on a minimum per ADM to employ a child nutrition director. The remaining funds are allocated based on ADM for employee salaries and other purchases.

Extent of Participation: 120 districts.

Community Schools

Funding in 1993-94: $3.3 million (less than 1.0% of the PSF).

Description: Each county receives a base allocation for the administration and promotion of community use of school facilities. Local districts are required to provide a 25 percent match to the state allocation.

Extent of Participation: 120 districts.

Driver Education

Funding in 1993-94: $23.2 million (less than 1.0% of the PSF).

Description: The North Carolina Motor Vehicle Code requires driver education for students seeking a driver's license prior to age 18. Funds are allocated based on actual ninth grade ADM, including private and federal schools, to instruct students in driver safety training. Beginning in 1993-94, schools were prohibited from teaching driver education during the instructional day. Many systems elected to use the state allocation to contract these services to private providers.

Extent of Participation: 120 districts.

Duty Free Period

Funding in 1993-94: $2.3 million (less than 1.0% of the PSF).

Description: North Carolina statutes require each district to provide each teacher with a 30 minute duty-free period each day with funds to assure the implementation of this requirement. Where the district can provide for the 30 minute duty-free period without using these funds, the funds may be used as needed in any current expense funding category.

Extent of Participation: 120 districts.

Health Education

Funding in 1993-94: $2.3 million (less than 1.0% of the PSF).

Description: Each school district may submit a plan for the development of a comprehensive health education program, which may include the employment of a health education coordinator.

Extent of Participation: All 120 districts are eligible to apply.

Outcome-Based Education Pilots

Funding in 1993-94: $3.0 million (less than 1.0% of the PSF).

Description: Provides funding for six pilot sites, two of which are multidistrict consortiums, to develop an outcome-based educational program to be implemented by FY 1996-97. Pilots are held to their 1992-93 allotment.

Extent of Participation: Nine school districts.

Safe Schools

Funding in 1993-94: $2.5 million (less than 1.0% of the PSF).

Description: Provides funding for LEAs to submit grants for programs to make schools safe. LEAs with approved grants may receive from $50,000 to $100,000.

Extent of Participation: All 120 districts are eligible to apply.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

The state does not currently provide any funding directly or indirectly, through tax credits or vouchers, for private school education in grades K-12. Programs such as driver's education provide the opportunity for participation by students from private schools.

XII. EARLY CHILDHOOD EDUCATION

None.

XIII. LOCAL SCHOOL REVENUE

Most of the funding from local sources is derived from local property taxes, locally passed supplemental property taxes, and local option sales taxes. Districts receive appropriations in both current expense and capital outlay categories.

Property Tax

The total amount of local property revenue raised for schools in 1992-93 was $32.6 million. This includes the supplementary property tax, which only two city districts are empowered to levy.

All real property is assessed at 100 percent of market value except for agricultural, horticultural, woodland, and historic property. Historic property is assessed at 50 percent of its face value. Agricultural, horticultural, and woodland property are assessed on the basis of present use value. The legislature sets the discount rate of income for these properties, and it is currently nine percent. The present use value of the property is analyzed annually. Mandatory reassessment for all property takes place on an eight year cycle. However, county commissioners can, by resolution, reassess property at any time. Such off-cycle reassessments are triggered by substantial changes in property value or inflation rates.

Income Tax

Not allowed.

Other Local Source Tax Revenue

Other local receipts are derived from fines and forfeitures, ABC revenues, local school fees, food service sales, and other miscellaneous sources.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

North Carolina Statutes provide a maximum limitation of $0.50 per $100 of property valuation for local supplemental school taxes. Large districts, those with more than 100,000 total population, may levy up to $0.60 per $100 valuation.

Spending Limits

North Carolina imposes no spending limits on local districts. Most of the current expense responsibilities are assumed by the state, while capital expenses are assumed by the local district. In recent years, there has been increasing philosophical disagreement between local and state policy makers on how much of the capital outlay responsibility belongs at each level. Because there are no local limits, local expenditures vary widely from a low of $346.34 per pupil to a high of $2,115.37 (based on 1992-93 data).

Voter Approval of Budgets and Bond Issues

The Local Government Commission in North Carolina operates as a Department of the State Treasurer and has the responsibility of approving or disapproving the issuance of local government bonds and notes. Local governments may not levy local taxes nor bonds without voter approval except for necessary expenses, but schools are not subject to this limitation. There is a constitutionally established district debt limit of eight percent of the tax base in each county as determined by appraised valuation. There is a 20 cent limitation on county tax rates, but education is among the several functions exempted from the limitation. The only notable exception on local finance that does affect school debt is that voter approval is required for a school district's current year indebtedness to exceed two-thirds of the amount that a school district reduced its prior year indebtedness.

XV. EARMARKED STATE REVENUE

There are two local option sales taxes that, if locally approved, have provided mandatory revenue for school aid. Both taxes are earmarked for capital outlay funding.

Article 40, passed in 1983, authorizes, in 1992-93, a 30 percent restriction for school construction projects

Article 42, passed in 1986, authorizes, in 1992-93, a 60 percent restriction for school construction projects.

Both articles originally provided a ten year limitation on the restricted funding levels. This restriction was increased by five years for both articles in 1993.

XVI. SPECIAL TOPICS

The suit entered by five low wealth county districts, with large urban district intervenors, which claimed that the states system of funding denied constitutionally guaranteed rights to an adequate and equitable education, was not dismissed. Action is expected later in 1995. In the meantime, the Governor has proposed a budget item that would provide the third low wealth district supplement in as many years. The Governor has also stated that he will request additional funds for the expansion of the Small Start initiative funded initially in 1993-94.

NORTH DAKOTA

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I. GENERAL BACKGROUND

State

- The state share of the federal-state-local mix of revenues for North Dakota elementary and secondary schools has decreased in recent years. In one year (1981-82) the state share of per pupil costs approximated 64 percent. By 1992-93, that share had decreased to an estimated 45 percent.
- The state maintains two programs to support the general costs of elementary and secondary education. The first, a quite typical foundation program, supports student on a weighted Average Daily Membership (ADM) basis. The second, the "state tuition fund," supports students in proportion to the number of school age children, ages 6-17, residing in the school district — a census count basis.
- The revenue sources for the foundation program were secured, in 1993-94, from the income tax (27.4 percent), sales tax (41.3 percent), mineral taxes (10.0 percent), and other sources (21.3 percent). Revenues for the state tuition fund were secured from the "net proceeds arising from all fines for violation of state laws, from leasing the school lands, and the interest and income from the state permanent school fund" (NDCC 15-44). In 1993-94 the foundation program level was set at $1,570. The state tuition fund provided each census unit with $198.
- The present foundation program was enacted in 1973. The foundation level has increased from $540 in 1973-74 to a projected $1,636 for 1994-95. In addition to changes in the foundation level, the law has been modified since 1973 to include kindergarten and preschool students, to create an index category for grade 7-8 students, to modify indices for elementary and secondary students, and to change the "deduct" from 23 mills for 1993-94 and to 24 mills for 1994-95.
- In January 1994, the Supreme Court of North Dakota determined that the "statutory method for the distribution of funding for primary and secondary education is not declared unconstitutional by a sufficient majority." The Bismarck Public School District joined by eight other plaintiff districts had complained that the school financing mechanism disadvantaged property poor districts and that the financing system failed to meet the standards expressed in the state Constitution. In February of 1993, District Judge William F. Hodney declared, "The North Dakota school financing system is declared to be in violation of Article VIII, Sections 1 and 2 and Article I, Sections 21 and 22 of the North Dakota Constitution...." Three of the five supreme court justices affirmed in part and reversed in part the trial court's decision. Two supreme court justices upheld the constitutionality to the system. The North Dakota Constitution, Article VI, Section 4, provides that " The supreme court shall not declare a legislative enactment unconstitutional unless at least four of the justices of the court so decide." Chief Justice Gerald Vande Walle wrote in his opinion reversing the decision of the district court, "[t]he present system is

fraught with funding inequities which I believe have not yet transgressed the rational basis standard of review but which appear to me to be on a collision course with even that differential standard."

Local

- In 1993-94, the state had 260 fiscally independent school districts; 191 high school districts that offered instruction at all levels K-12; 49 "graded elementary" districts that offered K-8 instruction; 11 "one room rural" districts most often offering K- 8 instruction; and 9 "non-operating" districts that group tuition their students to neighboring school districts.
- Property taxes constitute the sole source of local district tax revenues. Some local enhancement efforts, notably fees for participation and foundation development, seem to be increasing in number and in scope.
- Local school districts provide for capital expenditures through bond issues or from accumulations in the building fund. The state does maintain a low interest loan fund that may provide assistance for capital projects to a maximum of $3 million.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$246 million
Grants in aid	246 million	
Teacher retirement contibutions	0	
FICA	0	
Total Local School Tax Revenue		$206 million
Property tax	199 million	
Other local source tax revenue	7 million	
Local source non-tax revenue	0	
Total Combined State and Local Revenue		$452 million
State Financed Property Tax Credits Attributed to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: $191.8 million (78.1% of total state school aid).

Nature of Program: Foundation plan (NDCC 15-40.1).

Allocation Units: Pupils. Average Daily Membership (ADM). Weighted units are derived from fall membership counts or the ADM for the preceding year, whichever is greater, multiplied times an index number; the index numbers are different for different sizes of schools and for different levels of instruction and were derived, originally, from cost data that evidenced size and level differences.

How Formula Operates: The North Dakota foundation program works in this way. A "gross entitlement" is calculated by multiplying the number of enrolled students in membership times an index number times the foundation level.

In 1993-94, the indices were:

Grades 1-8 (1 teacher)	1.28
Grades 1-6 (1-100 ADM)	1.09
Grades 1-6 (100-999 ADM)	.905
Grades 1-6 (1000+ ADM)	.95
Grades 7-8 (All except one room rural)	1.01
Grades 9-12 (1-74 ADM)	1.625
Grades 9-12 (75-149 ADM)	1.335
Grades 9-12 (150-549 ADM)	1.24
Grades 9-12 (550+ ADM)	1.14
Eligible preschool	1.01
K	.50

Example: Assuming enrollments of 100 pupils per grade, thus:

Grade	*Enrollment*	*x*	*Index*	*=*	*WPU*
K-100	100		.50		50.00
1-6	600		.905		543.00
7-8	200		1.01		202.00
9-12	400		1.24		496.00
			Total WPU		1,291.00

State Share: The gross entitlement would be calculated by multiplying the total WPUs times the foundation level payment of $1,570. The net entitlement would be calculated by reducing the gross entitlement by 23 mills times the latest equalized assessed (taxable) valuation (the "deduct" in local parlance).

A feature of the entitlement calculation behavior deserves comment. Notice that a district could earn a higher number of weighted pupil units at a lower enrollment then at a higher enrollment if enrollments happened to be near the points where indices change. (Example: A school with 149 students in grades 9-12 would earn 198.915 weighted pupil units [149 x 1.335]; a school with 151 students in grades 9-12 would earn, apparently, 187.24 weighted pupil units [151 x 1.24].) If the program actually worked that way, an administrator could increase revenue by getting rid of students. That potential is eliminated by assuring districts that they will receive *at least* the number of weighted pupil units that they would have earned by enrolling the maximum number of pupils in the lower size category. In the example both schools would be eligible for 198.915 weighted pupil units.

Local Share: The 23 mill local fair share contribution (the "deduct") is not a qualifying rate; it is simply an equalizing factor. Schools must, however, maintain state accreditation to receive the maximum entitlement.

Weighting Procedures: See above.

Adjustments for Special Factors: None.

Aid Distribution Schedule: The net entitlement is distributed in nine payments September through May. The first two payments equal 15 percent of the net entitlement and the remaining seven equal ten percent of the net entitlement. The November payment is adjusted upwards or downwards to account for an underpayment or overpayment for the previous year. (Payments are based on last year's ADM or fall membership — whichever is greatest — and then adjusted for actual enrollment experience reported in June.)

Districts Off Formula: Four.

The State Tuition Fund

Funding in 1993-94 $23.9 million (9.7% of total state school aid).

Description: North Dakota maintains a second general school aid program — the state tuition fund commonly called "tuition apportionment" (NDCC 15-44). The tuition apportionment program funds are distributed quarterly to districts and are based on a census count. Each district is obliged to conduct a census count in May of each odd numbered year; the count employed for the distribution is the number of "school age" children, ages 6-17, residing in the district. In 1993-94, tuition apportionment supplied $198 for every "census unit," a total of $23.9 million for the state as a whole.

III. TRANSPORTATION

Funding in 1993-94: $17.4 million (7.1% of total state school aid).

Description: Districts are reimbursed for approved costs of transporting public school students in regular and certain vocational education and special education programs (NDCC 15-40.1-16).

State and Local Shares: The state employs a formula that provides different levels of support for larger buses than for smaller buses. In 1993-94, that support was 25 cents per mile for vehicles with a capacity of nine or fewer pupils and 67 cents per mile for vehicles with a capacity for ten or more pupils. In addition, districts received 28 cents per day for each pupil transported for those pupils residing outside city limits.

Districts received 17.5 cents per ride for students transported and who reside within city limits; in this case, however, no payment for distance is paid.

To receive transportation payments, students must reside a certain distance from the school, districts must meet all standards for school buses, and districts must certify that all qualifications and training for drivers stated in law and regulation are met. The superintendent of public instruction is responsible for administering the process for certification of compliance with all requirements.

The state also supports transportation costs associated with special education and vocational education. The support level parallels the support for general transportation except that no distinction is made, in this section of the law, between pupils residing within or without city limits.

Finally the state supports "family transportation," a system that subsidizes districts for supporting transportation to school by the rural family. The state support level was increased to 40 cents per mile for 1993-94 and 1994-95.

Extent of Participation: During the 1993-94 school year, 36.9 percent of the student membership in public school districts were provided home to school to home student transportation services. In addition approximately 5,200 students received support for in-city rides on commercial buses.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

The state maintains a capital project loan fund, the State School Construction Fund (SSCF), which provides construction loans of up to $3,000,000 for districts that have building projects and that meet certain effort and debt criteria (NDCC 15-60). The loans, at a 2.5 percent interest rate, are a popular but modest element in district planning for construction. The state does not provide additional capital outlay financing.

Local Capital Project Financing

State law specifies how local districts might borrow or accumulate resources for capital projects. (For a more complete discussion of this subject, consult the *Journal of Education Finance* 13 (Spring 1988), pp. 382-385.)

The local district may issue bonds for up to ten percent of the assessed valuation of the district where a "super majority" of 60 percent of the qualified voters voting on the project(s) proposed approve. Successfully passing a bond issue includes authority to establish a "sinking and interest" fund that is funded by the property tax used to amortize the debt (NDCC 21-03).

School boards may secure authority from the electorate to establish and maintain a "building fund" (NDCC 57-15). Where this capacity is authorized, up to 20 mills may be levied each year for this purpose. (Districts may have secured authority for fewer than the 20 mill maximum. Further, districts do not have to levy the maximum permitted each year to retain the authority to levy the maximum in a subsequent year. The authority remains until abandoned by the board or interrupted by an initiated process.) The building fund permits boards to accumulate dollars for anticipated projects.

In 1985, the North Dakota legislature established an alternative bonding procedure. School boards may issue bonds on their own initiative — subject to certain notice and process requirements — and amortize the issue from the district building fund (NDCC 21-03).

Finally, districts may appropriate part of their current operating budgets for capital outlay expenditures. They can do this by spending from several accounts permitted in the budget or by transferring funds from the general fund to the capital projects fund or building fund.

V. TEACHER RETIREMENT

The state does not contribute to a teacher retirement fund. The state, however, does specify the level of individual contribution and district match. Similarly, the state legislature approves changes in payout formulae based on recommendations from fund administrators and from actuaries. In 1993-94, teachers contributed 6.75 percent of their salaries and employers matched that level of contribution (NDCC 15-39.1-09).

Many other school employees, the classified staff, may secure retirement benefits by participation in a separate system — the Public Employees Retirement System (NDCC 54-52-01). In this system, employees contribute four percent of their salaries or wages and employers contribute 4.12 percent of those salaries or wages (NDCC 54-52-05).

VI. SPECIAL EDUCATION

Funding in 1993-94: $23.1 million (9.4% of total state school aid).

Description: North Dakota employs an "approved program" basis for state sharing in the costs of special education (NDCC 15-59). Each year district officials propose the programs (services) they intend to supply in the succeeding year. Where incidence of the handicapping condition warrants that level or amount of service, program administrators in the Department of Public Instruction approve the programs. Revenues (state shares) are then distributed to districts in three installments. The first payment, in August, equals 50 percent of the amount for which the district was eligible based on the previous year's approved program personnel. The second payment, in January, raises the level of support to 80 percent of the current year's approved program eligibility. The final payment, during the summer, completes the payment of the state share. The level of state share is determined by dollars available (appropriated) and by service required. A schedule of support levels is published annually to assist district officials in planning and budgeting. State support for special education programming is augmented by federal supports — $4.6 million in 1993-94.

The level of support varies by the service performed. In general, however, the state share of excess costs approximated 27 percent in 1993-94.

The rurality of North Dakota makes the provision of low incidence services particularly difficult. The state response to this circumstance is contained in support for special education transportation (NDCC 15-40.1-16.1), in enabling legislation for multidistrict special education units (NDCC 15-59.2), and in the provision for boarding home care for special education students (NDCC 15-59.3). Still another way in which the state addresses this circumstance is to pay the "excess costs" (those exceeding 2.5 times the state average cost) whether the student is educated in another district (NDCC 15-59-06) or in the home (NDCC 15-59-06.2).

The 1993 legislative assembly directed that a new system for the distribution of money for special education services be implemented that takes into consideration the units of service provided by the district, the district's program costs, and the district's special education program needs. In response to this directive a system of levels and weights was established based on the previous system of state reimbursement. The following table contains a listing of the levels, position titles, and weightings.

Level	*Position Title(s)*	*Weighted FTE*
A	Director	7.50
B	Coordinator, Assistant Director	5.50
C	Speech Pathologist (MA,) SLD, School Psychologist, Social Worker (MSW), Gifted (MA), Audiologist (MA)	4.75
D	Emotionally Disturbed, Severely Multiply Handicapped	3.50
E	Speech Pathologist (BA), Social Worker (BA), Adaptive PE, Physical Therapy, Occupational Therapy, Gifted (BA), Preschool, Visually Impaired, Hearing Impaired School Psychology Intern	3.25
F	EMH, TMH, Resource Room SLD, VSN	1.25
G	Tutor-in-Training, Level I	2.25
H	Tutor-in-Training, Level II	2.75
I	Paraprofessionals	1.00

State Share: The reimbursement for school districts is calculated using the following formulas. First, a weighted full-time equivalent (FTE) was calculated by multiplying the percent of time an individual was employed by the district times the Weighted FTE from the above table. Then this value was divided by the weighted FTE to determine the percent of total salary and benefits that would be allowable for state aid puposes. The formulas are as follows:

Percent Allowable = Weighted FTE / (FTE x Weighted FTE (from Table))

Amount Allowable = Percent Allowable x Total Salary and Benefits

The Amount Allowable was then divided by the total amount allowable for all positions statewide to derive a percentage. The total amount available for reimbursement was then multiplied by this percentage to determine the amount of the position reimbursement. The reimbursement for each position was calculated as follows:

Position Reimbursement = (Amount Allowable / Total Amount Allowable Statewide for All Positions) x Total Dollars Available for Reimbursement

In 1993-94 the total statewide Amount Allowable for all staff positions was $19,863,205 while the amount available for reimbursement was $10,630,247.

In addition state transportation payments are provided for the transportation of students for special education purposes. In 1993-94, approximately 1,832 students were transported 3,538,352 miles for special education services. School districts were reimbursed $1.4 million for transporting students for special education purposes.

The state reimbursement system for special education services is currently under review. The reimbursement program receiving serious consideration would reimburse special education programs a percentage of allowable costs for specific programs and expenditure objects.

Local Share: Districts are responsible for costs not covered by state aid.

VII. COMPENSATORY EDUCATION

The state does not fund or require a compensatory education program. Most school districts, however, participate in the federally funded Chapter One program. Certain special education programs — particularly the pre-kindergarten efforts — target populations requiring compensatory assistance. Similarly, the federally funded Head Start program targets populations for whom compensatory education is indicated. Finally, still another federally funded program, focused on the dependents of migrant workers, functions in several communities each summer.

VIII. GIFTED AND TALENTED EDUCATION

The state does not support a program for gifted and talented education with a specific designated appropriation. The state Department of Public Instruction, however, encourages these programs and promotes their development with technical assistance.

The Department of Public Instruction has continued to support the enrollment of 40 students in conceptually challenging mathematics and science programs on the North Dakota State University campus with federal funds and proportionate summer school pupil payments from state foundation aid.

IX. BILINGUAL EDUCATION

The state does not support a program of bilingual education with a specific designated appropriation. On several of the federal Indian reservations, American Indian groups have secured federal support for teaching and maintaining their native languages. A recent data initiative will require that schools collect information concerning the spoken home language of all students and report the kind and extent of services provided to limited English proficient students in membership.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $4.4 million (1.8% of total state school aid).

Description: In 1993-94, state transportation payments were made for transporting 1,700 students 287,699 miles for participation in vocational education programs.

North Dakota employs an "approved program" basis for state sharing in the costs of vocational education (NDCC 15-20.1-03). The Board of Vocational Education in North Dakota has a mission that extends from support for vocational programs in three community colleges that are part of the higher education system of the state, to programs such as the adult farm management program. For this reason, it is difficult to disaggregate state funding for vocational education to calculate support for secondary programs accurately.

State Share: The calculation of state funding for secondary vocational education slightly exceeded $4.4 million in 1993-94; this amount was augmented by federal grants of $2.3 million. That level of support was estimated to cover about 31 percent of the salaries of teachers in occupational programs. Some supports were granted for "exploratory" vocational programs; cooperative efforts between districts or in multidistrict centers received additional incentive payments. Many of the federal dollars were distributed on a competitive, grant basis. These grants were, primarily, for equipment purchases and new program development.

In addition, state transportation payments are provided for the transportation of students for vocational education purposes. In 1993-94, approximately 1,159 students were transported 330,193 miles for vocational education services. School districts were reimbursed $.25 million for transporting students for vocational education purposes.

Local Share: Districts are responsible for costs not covered by state aid.

Extent of Participation: Nine high school districts did not participate.

School District Boundary Restructuring

Funding in 1993-94: $1.3 million (less than 1.0% of total state school aid).

The 1989 legislature crafted an incentive program that permitted districts to receive up to $165 per pupil for cooperative collaborative effort. In 1993-94, 16 "consortia," embracing 91 school districts, developed proposals that were approved. The incentive payments may be realized for as many as five years. To secure the last two years of incentive payments, however, the units must have reorganized into a larger administrative unit.

Other Categorical Programs

In 1993, the state legislature funded additional programs, services, and institutions in an omnibus appropriation bill. Most of these activities did not affect elementary and secondary education funding availability directly and many of the programs were modest in size and scope. Nevertheless, they define a focus and signal a commitment that may be predictive of future funding. The list of these activities would include support for telecommunications grants, for displaced homemakers, for public libraries, for the state library, and for residential institutions — the School for the Deaf and the School for the Blind. Similarly, the state Department of Public Instruction secured capacity to provide technical assistance and to subsidize modest grant activities made possible by federal block grant programs.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

State law contains a provision that permits private school students to ride on public school buses if space is available. The state, however, does not provide support for this activity. State law also contains accommodations for special education services and vocational education services for private and parochial school pupils who receive services in public schools. In such instances "proportional" funding supports the activity.

XII. EARLY CHILDHOOD EDUCATION

In 1993-94, the state provided an average payment of $1,585 for the 615 students served in the preschool special education program mandated by the state. (These dollars were incorporated in the state support figures reported in Section VI — Special Education.)

XIII. LOCAL SCHOOL REVENUE

Property Tax

Local revenue is derived primarily from the property tax. In 1993-94, local property tax collections exceeded $199 million.

Property tax levies for local school districts ranged from 0 to 294 mills for all purposes and from 0 to 264 mills for "general fund" purposes in 1993-94. The average millage for districts for all purposes was 206.16 mills and 182.65

mills for general fund purposes. North Dakota has a true value-assessed value ratio of .50; in addition, North Dakota employs an assessed value-"taxable" value ratio of from .09 to .11; accordingly, the "taxable value" — the base to which millages are applied — ranges from 4.5 to 5.5 percent of true value. This arrangement, of course, accounts for the high millages that characterize North Dakota practice.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

Many districts receive "county" revenues from the proceeds of mineral taxes. In 1993-94, these sources provided $6.5 million for schools. The mineral taxes — coal extraction, coal conversion, and oil and gas production — are collected by the state. A portion of the tax, that decreases as production increases, is returned to the counties to be distributed to several jurisdictions including schools. The amount realized by the school district is calculated using a formula that includes a proportion of the total county revenue earmarked for schools divided by all pupils in the county (in ADM or, in one instance, in ADA) multiplied by the number of pupils in the school district. The wide disparity in amounts of revenue generated for the counties, the great differences in county school census figures, and the application of special rules for counties with different sized populations makes it impossible to generalize regarding effects on any unitized (as per pupil) basis.

Property Tax Circuit Breaker

While the state of North Dakota does not have circuit breaker laws as such, provisions are contained in state law (NDCC 57-02-08.1) for property tax credits for persons 65 years of age or older with limited income or any person who is certified as permanently and totally disabled. Thus, any individual meeting the foregoing requirements with an income of $13,000 dollars or less from all sources, including any county, state, or federal public assistance benefits, social security, or other retirement benefits is eligible to receive a reduction in the assessment on the taxable valuation on the homestead. In determining the person's income for eligibility the amount of medical expenses actually incurred by that person or any dependent person and not compensated by insurance or otherwise must be deducted to arrive at the income level. The amount of taxable valuation exemption to which an individual is eligible varies from 100 percent up to a maximum of $2000 if the person's income is not in excess of $7,000. However, if the person's income is in excess of $11,500 and not in excess of $13,000, the exemption in taxable valuation is limited to 20 percent of the taxable valuation of the person's homestead up to a maximum reduction of $400 dollars of taxable valuation. The value of the homestead is limited to a market value of $80,000. While the statutory provisions give some property tax relief to qualified persons it is rare that the total property tax liability is forgiven. Exemptions for disabled veterans and blind persons are contained in state law (NDCC 57-02-08).

XIV. TAX AND SPENDING LIMITS

School districts levying fewer than 180 mills for general fund purposes are permitted to increase local revenue by as much as 18 percent up to the product of 180 mills times the taxable valuation. Districts levying 180 mills or more were restricted to a revenue increase of no more than three percent for 1993-94 and 2 percent for 1994-95 by the 1993 legislature. Districts with unlimited levy authority have no restrictions other than that they can have their authority repealed by a vote of the people.

Voter Approval of Budgets and Bond Issues

See Section IV — Capital Outlay and Debt Service: Local Capital Project Financing for discussion of approval of bond issues.

XV. EARMARKED STATE REVENUE

None. Previously, a portion of the state sales tax and oil extraction tax were earmarked for elementary and secondary education.

XVI. SPECIAL TOPICS

Information not provided.

OHIO

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I. GENERAL BACKGROUND

State

- The state share of local and state revenue for public education has reflected an uneven but generally upward trend over the past 11 years. The state share in 1980-81 was about 39 percent, and hit all-time highs in 1984-85 at about 47.5 percent and over 52 percent in 1986-87. The state share was approximately 48.5 percent in 1989-90. Overall, total state and local revenue has been trending up and the state share of state and local revenue has been trending down since 1986-87. In 1993-94 the state share was 44.5 percent.

- State funding is derived from the state general revenue fund biennial appropriations. Major sources and proportions of this fund are the state personal income tax (41 percent), sales and use tax (36 percent), corporate franchise tax (8 percent), public utility excise tax (6 percent), and cigarette and alcoholic beverage taxes (3 percent). Other taxes and income account for about two percent of general fund revenue. In FY 1993, 30.9 percent of general fund revenue was expended for primary and secondary education. An additional amount equivalent to about six percent of the General Revenue Fund that comes from the state lottery is also earmarked for primary and secondary education.

- The Ohio school finance system incorporates a foundation program having equalization features along with several kinds of categorical (flat) grants without equalization. There is also an equity fund that targets additional revenue to low property wealth districts. This was $75 million in FY1994.

- Ohio school finance has undergone several major changes over the years. An early version of the school foundation program was replaced by an equal yield (district power equalization) formula in 1975-76. The constitutionality of this formula was challenged in 1977, but it was upheld by the Ohio Supreme Court in 1978. The equal yield formula was replaced by the present system in 1982. On July 1, 1994, a decision was issued in DeRolph v. State, Perry County Common Pleas Case No. 22043, declaring numerous provisions of Ohio's school finance system unconstitutional. The State has appealed this decision.

Local

- The state has 611 K-12 school districts and 49 joint vocational high school districts. School districts are essentially fiscally independent although county budget commissions, after reviewing proposed school district budgets, establish estimated revenues and expenditures and then set approved property tax millage. Eighty-seven county boards of education serve the function of intermediate units to mostly smaller districts.

- School districts are classified as city school districts (encompassing a city of 5,000 or more persons), exempted village school districts (encompassing a village of 2,500 or more persons) and local school districts (all those not included in the above classifications). Local school districts are subject to the limited control of county boards of education. These boards must provide supervisory services to local school districts under their jurisdiction (3317.11 Ohio Revised Code). Costs of these supervisory personnel are apportioned among the local school districts, and the costs are deducted from basic foundation program payments of the local school districts within the county. (See Section II.) Costs for special education supervisory teachers and special education instruction are paid by the state. The state also provides support for other lawful expenditures over and above salaries related to the previously mentioned positions. In 1993-94 this amounted to $29 per pupil in average daily membership.
- School district operating fund revenue is generated from school district personal income taxes and/or school district real and tangible personal property taxes. The latter taxes are the most prevalent and productive taxes. The Ohio constitution requires the apportionment of a ten mill county levy among local jurisdictions including school districts.
- Since 1976, when real property values increase because of inflation, revenue is limited to the amount generated during the initial year of the levy. Thus, although there is no limit on the number of mills that may be voted, there is some limit on revenue which may be generated by a given levy.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$3,759 million
Grants in aid	3,759 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Revenue		$6,200 million
Property tax revenue	4,568 million	
Other local source tax revenue	75 million	
Local source non-tax revenue	1,557 million	
Total Combined State and Local School Revenue		$9,959 million
State Financed Property Tax Credits Attributable to School Taxes	441 million	

II. THE BASIC SUPPORT PROGRAM

School Foundation Program

Funding in 1993-94: $3,068 million (81.6% of total state school aid).

Nature of Program: Foundation program incorporating categorical aids, known as the School Foundation Program (Chapter 3317, Ohio Revised Code).

Allocation Units: Pupils. Average daily membership (ADM). ADM is calculated during the first full school week in October. It is the total membership (enrollment) averaged over the five days. In calculating basic aid, districts may use the greater of the current year count or the average of the current and two previous years. Also, if the total ADM for the first full week in February is at least three percent greater than the October count, a recalculation will be made.

Local Fiscal Capacity: Assessed property valuation.

How Formula Operates: The formula incorporates two major components, Part A, basic program support, and Part B, categorical program funding. Each has several sub-parts and/or steps in calculating the state aid for which a school district is eligible.

Part A: Basic Program Support. In 1993-94, the cost of the minimum program per pupil was $2,871. The cost of the basic program guaranteed by the state for each district was equal to:

$2,871 x District ADM x Cost of Doing Business Factor

The Cost of Doing Business Factor is calculated by the Ohio Department of Education based on wage data for all workers in the state supplied by the Ohio Bureau of Employment Services. The cost factor for a district is based on the average weekly wage for the county in which the district is located and its contiguous counties. This factor ranges from 1.00 to 1.075. This factor is a proxy to offset the varying regional costs of providing equivalent educational services.

Several adjustments are made at this point in order to account for variations in the number, training, and experience of teachers, and other services provided.

Districts with valuation per pupil at or above $285,000 and with more than 100 students are guaranteed 70 percent of their FY1991 basic aid amount for FY1994. Districts with valuation per pupil between $200,000 and $285,000 and with more than 100 students are guaranteed 100 percent of their FY1991 or FY1992 basic aid, whichever is greater. Districts with valuation per pupil below $200,000 or districts with fewer than 100 students are guaranteed 100 percent of their FY1991 or FY1992 basic aid whichever is greater. In FY1995 the percentage guaranteed decreases to 55 percent and 95 percent for the first two categories respectively.

Part B: Categorical Programs. Categorical programs incorporated in the School Foundation Program include Vocational Education (Section X), Special Education (Section VI), Gifted (Section VIII), Extended Service, and Transportation (Section III). Categorical program funding is characterized by flat grants awarded to districts.

Extended service grants are provided for a limited number of certified employees who serve beyond the regular school term. No allowance is paid to superintendents, assistant superintendents, principals, or assistant principals. The total state allowance is up to $4.4 million for 1993-94.

State Share: The state's share of basic program support is inversely related to a school district's assessed valuation per pupil. The 1993-94 basic program cost of $2,871 per pupil is shared between the state and the local school district. Basic aid is the cost of the basic program minus required local effort. Relatively high assessed valuation districts would have a negative number after the subtraction and would not be eligible for basic program support under this equalization feature.

The categorical programs within the school foundation program are fully funded by the state but only at the levels specified. For example, teachers' salaries in approved units in vocational education and special education are funded at a teacher's position on the state minimum teachers' salary schedule. Most school districts have teachers' salary schedules that exceed the state minimum, so the local school district must provide the difference.

The state provides support for approved extended service. Payments for extended service are based on the state minimum teachers salary schedule plus 15 percent. Due to the fact that appropriations for this item fall short of the calculated cost for FY 94, only 13 percent of the calculated cost was paid for by the state. The remainder was paid for by the local school district.

Local Share: The local share of basic program costs is generated through the mandated 20 mill property tax levy. The local school district share of basic program support is directly related to the district's assessed valuation per pupil. Districts with relatively high assessed valuation per pupil and those which levy fewer than the 20 mills required for participation receive no state support for the basic program. In practice, no district levies fewer than the 20 qualifying mills and all high valuation districts receive some state basic aid due to guarantees.

The categorical programs are funded by the state at the minimal level. Any additional costs for these programs must be borne entirely by the local school district.

Weighting Procedures: None.

Adjustments for Special Factors: The Disadvantaged Pupil Impact Aid Program (DPIA) is incorporated in the basic program as a municipal overburden factor. Districts are eligible on the basis of number and percent of students coming from households that receive Aid to Dependent Children support. DPIA allocations range from $103 per pupil for districts with at least 50 ADC children or at least five percent but less than ten percent to $1,092 per pupil for districts with 20 percent or more. Fifty percent of the monies must be expended on any of the 19 programs for at-risk students, such as all day kindergarten, reduction of class size, summer school or other remediation, or dropout prevention programs.

Adjustments for declining enrollment are provided in the calculation of average daily membership in basic program support. A deduction is made for districts employing fewer than 40 classroom teachers per 1,000 pupils in current ADM. A positive adjustment is made for districts whose average teacher training and experience exceeds the state average. A deduction is made for districts employing fewer than five educational service personnel per 1,000 pupils in current ADM. A county board of education deduction is applied to districts that are members of county boards. Adjustments for disadvantaged pupil impact aid are described above.

Total basic program funding plus categorical support yields the total school foundation program. However, two additional guarantees are provided. If the school district has undergone reappraisal of taxable property it will receive no less money than it received in the previous fiscal year prior to reappraisal. This guarantee is for one year. If a school district has been consolidated, the newly constituted district will receive no less money each year, for a period of three years, than the sum the original districts received in the year of consolidation. In practice these two guarantees are applicable to very few districts.

Aid Distribution Schedule: Basic aid, DPIA, and categoricals are distributed together in 24 semi-monthly payments to districts. Other special funds are distributed monthly or as one-time payments.

Districts Off Formula: 281 school districts; all of these districts receive the basic aid guarantee described above.

III. TRANSPORTATION

Funding in 1993-94: 139.9 million (3.7% of total state school aid).

Description: State aid for operation of approved transportation is incorporated as a categorical grant in the School Foundation Program (Ohio Revised Code 3327.01 and 3317.024).

Of the $139.9 million, $22 million was set aside for transportation of handicapped pupils using a formula that reimburses on a per-pupil per-day transportation cost of $3 per day plus .5 of the actual cost above the $3 to transport the pupil for one day. This amount is then reduced by a percentage to stay within the total amount set aside.

The remaining amount is incorporated as a categorical grant in the school foundation program for operational costs. Transportation operating allowances are based on formulas established by the State Board of Education. Factors in these formulas include the number of pupils and the number of total annual miles for each of the six types of transportation provided. The allowance is the greater of the pupil or mileage calculation.

The six types of transportation include: Type I — board-owned and operated buses; Type II — contractor-owned and operated buses; Type III — public utilities; Type IV — payment to parent or guardian for transportation to school; Type V — board-owned vehicles other than school buses; and Type VI — payment to parent or guardian for transportation to bus stop. Each type is funded based on a certain amount per-pupil or per-mile. Type I, for example, which generally receives over 90 percent of the funding, received $71.00 per-pupil transported or $0.61 per-mile, whichever was greater.

State and Local Shares: A goal of the state has been to reimburse school districts for 60 percent of the cost for handicapped transportation and 50 percent of the costs for regular transportation. In 1984-85, the reimbursement level reached 46.96 percent. Since that time it has fallen and, during 1993-94, it was below 30 percent for both types. School districts assume the balance of the costs.

Extent of Participation: 610 school districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

There are no programs in the school foundation program for state assistance in financing capital outlay or debt service. However, there are separate provisions for several of these kinds of aids.

State Aided Programs

School Bus Purchase Allowance

(Ohio Revised Code 3317.07)

Funding in 1993-94: $27.8 million (less than 1.0% of total state school aid).

Description: The appropriation for this program is divided into two parts. Twenty-five percent goes to handicapped and non public busses and is distributed on a grant basis in response to applications showing need. The remaining seventy-five percent is distributed to all districts for regular busses based on a formula. The formula is based on the number of pupils or number of miles transported, whichever is greater. This amount is adjusted with a wealth factor that takes into account property values and income of each school district. There is a small adjustment for rough roads. Districts categorized as low wealth receive a $10,000 minimum payment.

Extent of Participation: 603 school districts

State School Building Assistance Program

(Ohio Revised Code 3318)

Funding in 1993-94: $10.0 million (less than 1.0% of total state school aid).

Description: This program assists school districts that are unable to provide adequate school facilities despite the issuance of building bonds equal to seven percent of the assessed valuation of the school district. Operationally, the program assists low assessed valuation districts in meeting state minimum standards for school facilities. In general, the state matches local revenue raised by means of a district bond issue. The package of state and school district revenue is used to construct approved facilities to correct deficiencies. To participate, a school district bond issue must be passed to repay the state for its contribution. Any amount unpaid after a 23-year period is forgiven. Monies repaid to the state by school districts as they pay debt service on their bond issue flow back to the state fund and thus become something of a rotary fund. In 1993-94, two school districts were allocated $13.7 million. A total of $15.5 million was actually distributed in 1993-94 to seven school districts.

Vocational Education Equipment

Funding in 1993-94: $8.8 million (less than 1.0% of total state school aid).

Description: Under this program reimbursements are made to school districts to cover part of the cost of purchasing equipment for vocational education classrooms and laboratories.

State Share: State funds are provided to school districts on a 40, 50 or 60 percent of cost basis depending on the district's priority index rating. The priority rating is based on the percent of pupils receiving ADC payments and other socioeconomics factors. If demand exceeds funds available, state funds are prorated.

Local Share: Locals assume remaining share of cost.

Extent of Participation: 281 districts

Local Capital Project Financing

Capital outlay projects are financed by school district revenue in several ways. These include the issuance of serial bonds, passage of permanent improvement levies, and capital outlay accounts in other discrete funds.

Serial bonds. A school district may incur indebtedness up to nine percent of the assessed valuation of taxable property (Ohio Revised Code 133.02). State procedural limitations for the issuance of serial bonds include a majority affirmative vote on the issue, which includes the purpose of the issue, estimated tax levy to retire the bonds, and the period of time to retire the debt not to exceed 23 years (Ohio Revised Code 133.11 and 133.13).

Permanent Improvement Fund. This permissive fund is created to acquire, construct, or improve such property that has a useful life of five years or more (Ohio Revised Code 5705.12). The levy providing revenue for the fund is limited to five years. If a majority of voters approve the levy and establishment of the fund, the property tax revenue so designated flows into the fund. In conventional practice the fund is used for smaller capital outlay projects, which are scheduled on a year-by-year order. This avoids the issuance of bonds that carry interest costs.

Capital Outlay Accounts in Other Discrete Funds. The fund accounting system in Ohio established discrete funds for specific purposes. The Uniform School Accounting System designates Object Code 600 as capital outlay expenditures in several funds. The largest of these is the General Fund. The capital outlay account in this fund is usually used for minor building improvements and upgraded instructional equipment.

V. TEACHER RETIREMENT

(Section 3307.01 ORC)

Description: School districts are solely responsible for payment of the employer's share of teacher retirement. Teacher retirement expenses are included in local district budgets but are paid for out of state foundation payments. Instead of sending the money to the district and then having the district send the money to State Teachers Retirement System (STRS), the state makes the payment directly to STRS. The employer's contribution is equal to 14 percent of the total estimated salaries. The employee's contribution is 9.25 percent of her/his salary. Employees hired after March 31, 1986, must pay 1.45 percent for the hospital insurance portion of Medicare. The school district matches this 1.45 percent. The total employer's contribution was $590.3 million in 1993-94.

Retirement expenses for noncertificated school employees are handled the same as above. The state sends 14 percent of estimated salary to the School Employees Retirement System. Employees pay nine percent of salary. The total employer's contribution for this was $177.6 million in 1993-94.

VI. SPECIAL EDUCATION

Funding in 1993-94: $480.4 million (12.8% of total state school aid).

Description: Special education is funded by the state as a categorical aid in the school foundation program (Ohio Revised Code 3317.05, 3317.024, 3317.022). Funds are awarded on the basis of approved units. Prior to each school year the State Department of Education solicits requests from each school district for the several kinds of approved units. The requirements and specifications of each type of unit are included in the request. Requests are evaluated in light of district needs and available appropriations. In practice, the number of requests exceeds the allocation for units, so some requests are funded, some partially funded, and some not funded.

Payment is made on the formula set forth in 3317.13, namely, total teachers salary allowance based on the state minimum salary schedule plus 15 percent of salary allowance for retirement and sick leave plus $2,132 for each supervisory and related service unit and other expenses or $8,023 for each classroom unit and other expenses.

State and Local Shares: Approved units are funded by the state utilizing the formula in 3317.13. If school districts provide special education programs in addition to the approved units and/or pay teachers over the state minimum salary schedule or expend more than the specified amount on classroom expenditures, local support must cover these amounts.

Extent of Participation: 611 school districts, county boards of MR/DD, vocational school districts, and state institutions.

VII. COMPENSATORY EDUCATION

Disadvantaged Pupil Impact Aid

Funding in 1993-94: $239.2 million (6.4% of total state school aid).

Description: This program is incorporated in the basic program component of the school foundation program and is intended to provide adequate education for students in school districts impacted by high concentrations of poverty.

State Share: The current formula provides allocations that range from $103 per pupil for districts with at least 50 children from households receiving Aid to Dependent Children or at least five percent but less than ten percent, to $1,092 per pupil for districts with 20 percent or more coming from ADC households. The state assumes all costs. At least 50 percent of the funds received must be spent on any of 19 programs for at-risks students.

Local Share: None.

Extent of Participation: 493 school districts

Disadvantaged Pupil Program Fund

Funding in 1993-94: $38.5 million (1.0% of total state school aid).

Description: The purpose of the fund is to improve disadvantaged students' academic and cultural status. Eligibility for district participation is specified in the Ohio Revised Code 3317.024(F).

State Share: School districts design, submit and implement their approved programs pursuant to state board of education standards (3301-77-01 through 3301-76-06). Funding is based on the Aid to Dependent Children count.

Local Share: None is required.

Extent of Participation: 496 school districts.

Urban Demonstration Projects

Funding in 1993-94: $2.5 million (less than 1.0% of total state school aid).

Description: The purpose of the projects is to enable selected urban school districts to plan, develop, implement, evaluate, and conduct research pertinent to urban education programs and reduce the dropout rate. A further purpose is to have the Urban Demonstration Projects serve as models of exemplary urban education organization and practices.

State Share: Legislative authorization specifies the nature of school district participation. The program is funded by the state.

Local Share: None is required.

Extent of Participation: 14 school districts

Educational Aides for Special Education

Funding in 1993-94: $1.5 million (less than 1.0% of total state school aid).

Description: Amended Sub. H.B. 152 appropriated funding for special education classroom aides required by rules for the education of handicapped children.

State and Local Shares: Current appropriations allow for a reimbursement of $928.75 for each aide in a state funded multihandicapped unit. Districts are responsible for costs not covered by state reimbursement.

Extent of Participation: 228 school districts plus 82 county boards for mental retardation and developmental disabilities.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $18.7 million (less than 1.0% of total state school aid).

Description: Gifted and talented education is funded by the state as categorical aid in the school foundation program (Ohio Revised Code 3317.024). School districts apply for units according to state department of education standards.

State and Local Shares: For units awarded, the state payment to the district is based upon a formula set forth in 3317.13, namely the teacher's salary allowance on the state minimum teachers salary schedule plus 15.0 percent of the salary allowance for retirement and sick leave plus $2,678 for additional costs. If school districts provide gifted and talented education in addition to the approved units and/or pay teachers over the state minimum salary schedule or expend more than the specified amount for additional costs, local support must cover these extra costs.

Extent of Participation: 611 school districts and county boards of education.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $289.8 million (7.7% of total state school aid).

Description: Vocational education is incorporated in the categorical aid component of the school foundation program (Ohio Revised Code 3317.023 and 3317.024). School districts apply for approved units according to state department standards. Vocational units approved in 1993-94 total 7,241.

State and Local Shares: State funds are distributed to K-12 school districts and to joint vocational school districts on the basis of approved units. State reimbursement includes the teacher's salary allowance on the state minimum teachers salary schedule plus 15 percent of the salary allowance for retirement and sick leave plus $9,510 for each vocational unit and $8,023 for each approved special education unit. In addition, joint vocational school districts receive funds for academic classes offered as a percent of the basic unit allowance and receive an equalization amount computed in accordance with the following formula:

(Number of vocational approved units x $20,000) (.001 x Total Taxable Value)

If the difference obtained is a negative number, the computation under Division (B)(6) of Section 3317.16 of the Ohio Revised Code shall be zero.

The school district makes up the difference between state aid and the cost of vocational programs.

Extent of Participation: 542 K-12 school districts plus 49 joint vocational school districts.

Entry Year Program

Funding in 1993-94: $2.2 million (less than 1.0% of total state school aid).

Description: The purpose of the entry year program (Am. Sub. House Bill 111 of the 118th General Assembly) is to provide support to meet the needs of first year employment under a classroom teaching certificate or an educational personnel certificate. The program includes components related to selecting and assigning mentors, orientation of mentors, mentor training, allocation of time for mentor and first year individual consultation and assistance, and ongoing professional support for mentors and first year individuals.

State and Local Shares: Forty-five programs were funded after a competitive review process. Any additional costs are borne by the school district.

Extent of Participation: 45 grants involving 427 school districts.

School Lunch Match

Funding in 1993-94: $8.8 million (less than 1.0% of total state school aid).

Description: For a state to accept federal revenues from the National School Lunch Act of 1946 it is required that the state shall match the federal subsidy with a 30 percent matching grant (Part 210, Code of Federal Regulations, Title VII, as amended). This act, in addition to the Child Nutrition Act of 1966 and subsequent amendments, provides federal money through the several school lunch and nutrition programs.

State and Local Shares: The state share of program costs is calculated by a formula based on the number of free lunches provided by the school district during the previous year. Districts are responsible for costs not covered by the state program.

Extent of Participation: 643 school districts

Driver Education

Funding in 1993-94: $5.6 million (less than 1.0% of total state school aid).

Description: This program provides courses required for 16-and 17-year old high school students to qualify for an Ohio driver's license. Legislation (Ohio Revised Code 3301.17 and 3317.024(I) provides a subsidy for school districts for the cost of these courses.

State and Local Shares: The state provides a $50 subsidy for each pupil completing an approved driver education course. School districts may charge a course fee not to exceed $50 or actual costs minus the state subsidy (Ohio Revised Code 3301.171). Costs exceeding the subsidy plus the course fee are paid by the school district.

Extent of Participation: All 611 school districts

School Improvement Models

Funding in 1993-94: $16.7 million (less than 1.0% of total state school aid).

Description: Subsidy 431, School Improvement Models, provides $16.7 million for venture capital grants to support school improvement. School improvement supports the dissemination of sound research and practice-based knowledge with respect to the adaptation or invention of school improvement models incorporating the professional development of educators and the improvement of the quality of schools as organizations to achieve and sustain high performance teaching and learning.

State Share: A competitive review process has been established to award schools $25,000 each to improve teaching and learning in schools. To qualify for the award, schools had to document support for their improvement plan from their building staff, board of education, and community.

Local Share: Schools are asked to leverage existing dollars and resources and identify new monies and resources, if necessary, for support of improvement efforts.

Extent of Participation: A total of 775 school buildings submitted applications for funding. The Ohio Department of Education selected 306 schools as "venture" schools.

Desegregation Costs

Funding in 1993-94: $39.5 million (1.1% of total state school aid).

Description: Funding is provided to cover the state share in court-ordered desegregation plans.

State and Local Shares: The state share was determined by the court in two cases. Districts pay those costs not covered by the state share.

Extent of Participation: Two school districts.

Adolescent Pregnancy Program

Funding in 1993-94: $1.1 million (less than 1.0% of total state school aid).

Description: The program is a state-local incentive grant (Am. Sub. House Bill 152, item 200-568) that provides 75 percent of its funds to programs that encourage the postponement of sexual activity among adolescents and the prevention of teen pregnancy. The remaining 25 percent provides services to adolescent parents.

State and Local Shares: These competitive grants require agency collaboration within and among counties. The awards are either 80 percent, 70 percent, 60 percent, or 50 percent of the total cost of the program based on fiscal ability of the county as derived from employment data. The awardee county's match pays the remaining costs of the program — 20 percent, 30 percent, 40 percent, or 50 percent.

Extent of Participation: School districts in 37 counties. Eleven school districts served as fiscal agents.

State Funded Agencies Which Provide Services to School Districts

Several agencies are funded by discrete appropriations to provide specific services to school districts.

Technology Equity

Funding in 1993-94: $7.4 million (less than 1.0% of total state school aid).

Description: This program was originally established by Am. Sub. H.B. 298 of the 199th General Assembly. Its goal is to promote and facilitate the use of technology in the classroom. In FY94 a portion of the funds went to the Ohio Education Broadcast Network (OEB) for development of video programs and for competitive grants for implementation of advanced technology in schools. Most of the funds went to competitive grants from the Ohio Department of Education for schools to provide hardware, software, and professional development.

State Share: Competitive grants to school districts.

Local Share: None.

Extent of Participation: In FY 1994, a total of 150 school districts received grants. Many others will benefit from use of programs developed by OEB.

Educational Technology

Funding in 1993-94: $4.8 million (less than 1.0% of total state school aid).

Description: This line item provides contractual funding to eight instructional television agencies to provide basic instructional television service without charge to any chartered school district. They also provide a range of services including staff development and assistance to schools in technology acquisition. Also funded are Educational Media Centers which provide supplementary educational resources and services to school districts such as media consulting, media production, equipment, staff development, and an on-line media retrieval system.

State Share: Both the ITV agencies and Media Centers contract with the Ohio Department of Education for funding.

Local Share: None.

Extent of Participation: All public and nonpublic schools are eligible to receive services from both the ITV agencies and media centers.

Regional Teacher and Leadership Training Centers

Funding in 1993-94: $3.9 million (less than 1.0% of total state school aid).

Description: Amended Substitute House Bill 298 provided funding to establish eight regional centers to provide professional development programs for K-12 teachers and administrators. In addition, the regional centers provide opportunities for collaboration among school districts, the business community, institutions of higher education and other groups interested in teacher training and development. To date, the regional centers have focused on providing support for schools engaged in school renewal efforts, particularly Venture Schools; providing professional development on the state's curriculum models; and site-based management.

State Share: Grants are made to eight regional professional development centers, based on the number of educators within the region. Initial funding was based on a competitive grants procedure. In subsequent funding cycles, the regional centers have submitted strategic plans for the funding cycle.

Local Share: A number of regional centers have in-kind contributions in the form of office space, reduced fiscal agent charges, etc.

Extent of Participation: All educators in all school districts within the region are eligible to participate in the regional centers' professional development activities.

Ohio Family and Children First

Funding in 1993-94: $4.4 million (less than 1.0% of total state school aid).

Description: Ohio Family and Children First initiative assists the state in achieving National Education Goal 1 by providing funding for improving delivery of and access to social, health, and educational services to children birth through eight and their families.

State Share: Am. Sub. H.B. 152 provides approximately $4.4 million for innovative pilot projects at the county level.

Local Share: None required.

Extent of Participation: There are nine pilot projects that represent thirteen counties.

Reading Recovery

Funding in 1993-94: $1.6 million (less than 1.0% of total state school aid).

Description: H. B. 238 provided funding in 1985-86 to train 26 teacher-leaders in methods of early intervention to prevent reading failures among first graders who were considered to be at risk. During 1993-94, 7,266 children received these services.

State and Local Shares: Funds are provided to give salary support for reading recovery teacher-leaders while they are engaged in regional activities and training teachers. Districts provide support for costs not covered by the state.

Extent of Participation: 315 school districts.

XI. STATE AID TO PRIVATE K-12 SCHOOLS

Each nonpublic school chartered by the state board of education is eligible to participate in a number of funded programs.

Auxiliary Services

(Ohio Revised Code 3317.06)

Funding in 1993-94: $77.7 million (2.1% of total state school aid).

Description: Funds are provided to purchase secular textbooks to loan to pupils attending eligible nonpublic schools or their parents and to employ clerical personnel to administrator such lending programs. Funds are also used to provide certain services to pupils and to purchase secular, neutral, and nonideological computer software, and mathematics and science equipment and software.

State and Local Shares: The state pays the entire cost to provide these services.

Extent of Participation: In 1993-94, 226,629 nonpublic school pupils were served with an average allocation of $319 per pupil in average daily membership.

Nonpublic Administrative Cost Reimbursement

(Ohio Revised Code 3317.063)

Funding in 1993-94: $17.4 million (less than 1.0% of total state school aid).

Description: These funds reimburse each chartered nonpublic school for the actual mandated administrative service and clerical cost incurred by such schools during the preceding school year in preparing, maintaining, and filing reports, forms, and records that may be required by state law or rule or by requirements duly promulgated by city, exempted village, or local school districts.

State and Local Shares: State funds alone provide this reimbursement. In 1993-94, the nonpublic schools were eligible for $17.4 million.

Extent of Participation: 226,629 pupils in average daily membership were enrolled in eligible nonpublic schools.

XII. EARLY CHILDHOOD EDUCATION

Preschool Special Education

Funding in 1993-94: $39 million (1.0% of total state school aid).

Description: This is a program for children ages three through five with disabilities that includes teacher, related services, and supervisory units. It is incorporated into the special education categorical aid component of the school foundation program. In accordance with Public Law 99-457 and Am. Sub. H.B. 248, school districts are mandated to serve preschool age children beginning at age three.

State Share: Units are applied for and approved by the state board of education. Each unit is funded at the state minimum teachers salary schedule plus 15 percent for retirement and sick leave plus $8,023 for classroom costs.

Local Share: School districts are required to cover all costs over the state share.

Extent of Participation: 316 school districts serve 8,088 children through preschool special education state foundation unit funding.

Headstart

Funding in 1993-94: $28.5 million (less than 1.0% of total state school aid).

Description: This is a program for children ages three through five whose parents earn 100 percent of the federal poverty level or less. The program provides comprehensive services to children and families in accordance with Head Start Performance Standards. Amended Substitute House Bill 152 provided funding to existing Head Start agencies to continue and expand programs to serve eligible children as well as permitted the state department of education to establish state Head Start grantees under certain conditions. Funding will increase to $68.5 million in 1994-95.

State Share: Funds are distributed on a per child basis. However, additional allowable costs associated with expansion were approved. The average per child amount is $3,200. Expansion was considered a priority in counties serving less than 50 percent of the eligible population.

Local Share: Not applicable.

Extent of Participation: Fifty-six Head Start agencies serve a total of 15,010 state-funded children. A total of 51 percent of the eligible population are being served with state and federal funds.

Public School Preschool

Funding in 1993-94: $14.9 million (less than 1.0% of total state school aid).

Description: This is a program for children ages three through five whose parents earn less than 185 percent of the federal poverty level that provides comprehensive services to children and families in accordance with Head Start Performance Standards.

State Share: A minimum of 51 percent of the children served must meet income eligibility guidelines and funds are distributed on a per eligible child basis. The average per child amount is $3,200. However, a sliding fee scale is required for all children whose families earn over 100 percent of the federal poverty level.

Local Share: School districts are required to charge tuition to families above income eligibility but may use local funds and in-kind matches for costs incurred above the state share.

Extent of Participation: 119 school districts served a total of 7,752 children: 3,302 were below 100 percent of the poverty level; 2,149 between 100 percent and 185 percent; and 2,301 were above 185 percent of the property level.

School-Age Child Care and Early Education

Funding in 1993-94: $1 million (less than 1.0% of total state school aid).

Description: Three programs are combined into this funding: School-age Child Care (SACC), Parents as Teachers (PAT), and Training Ohio Parents for Success (TOPS). SACC is a program for children ages 5-14 that provides before and after school and summer activities. PAT is an in-home program for parents of children ages birth through two, and TOPS uses a train the trainer model to provide personnel to conduct training and support activities for parents of school-age children.

State Share: Am. Sub. H.B. 152 provides approximately $200,000 for use as a 25 percent required state match for the Federal Dependent Care grant for school-age child care programs. PAT receives over $500,000 and TOPS the remainder of the budget.

Local Share: None required.

Extent of Participation: Twenty-three (23) SACC programs were funded and are serving an estimated 1,361 children. PAT funds nine (9) sites. Each site receives approximately $71,000. TOPS is available in Ohio's 88 counties and 8 major cities.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Property taxes available to school districts are part of a classified property tax system. School district property taxes are levied on real property (land and improvements thereon) and tangible personal property (machinery, equipment, and inventories used in business). The assessment ratio for real property is 35 percent of true market value. Real property is reappraised every six years, but every three years an equalization adjustment is made. Sales ratio studies are conducted by the Department of Taxation in each county to compare the assessed taxable value to the sales price of properties sold. These ratios are used extensively in checking the reappraisal process.

Virtually all property tax levies must be approved by a majority vote. The only exception are the levies inside the 10 mill limitation (see Section XIV) — those permitted without vote for the aggregate of all local taxing jurisdictions within the county. These "inside millages" vary among the 611 school districts.

Tangible personal property was assessed at 35 percent of true market value in the early 1980s, but has been reduced to 25 percent as of 1993. The tax rates applied to tangible personal property are the same as those applied to real property in school districts. However, House Bill 920 (see Section XIV) does not apply to tangible personal property revenue changes.

Income Tax

The school district income tax is a permissive tax levied as a resident tax on the amount of adjusted gross income as reported for state income tax purposes less the $650 personal exemptions. The tax rates are in multiples of a quarter of one percent. The tax rate must be approved by the majority of school district voters and can be permanent or for a finite period. In 1994, rates ranged from .5 percent to 1.75 percent in 101 districts that enacted the tax. Equivalent property tax millage of income tax collections can be used toward the 20 mill eligibility for state aid.

Homestead Exemption

This tax relief is granted to qualified elderly or disabled homeowners. The tax reduction is equal to the gross millage rate multiplied by a reduction in taxable value determined by the income class of the homeowner. For total income of owner and spouse of $6,500 or less, the taxable value is reduced the lesser of $5,000 or 75 percent of taxable value. For total income of $11,500 to $16,500, the taxable value is reduced the lesser of $1,000 or 25 percent of taxable value. No exemption is provided for the owner and spouse with total income over $16,500. The state reimburses school districts for this tax loss. For 1993-94, the reimbursement for both the Homestead Exemption and the Percentage Rollback totaled $441 million.

Percentage Rollback

The state grants tax relief in the form of a ten percent reduction in each taxpayer's real property tax bill, both residential and commercial. In addition to the ten percent rollback, a 2.5 percent rollback is granted on real property taxes for owner-occupied dwellings. The state reimburses school districts for this tax loss. For 1993-94 the reimbursement for both the Homestead Exemption and the Percentage Rollback totaled $441 million.

XIV. TAX AND SPENDING LIMITS

The Ten Mill Limitation

The Ohio constitution requires that all property taxes in excess of ten mills are subject to voter approval. Up to ten mills may be levied by the aggregate of all taxing jurisdictions within a county without the vote of the people. If a school district in a county where the ten mill limitation has been reached seeks millage beyond its share of the ten mills (termed "inside millage," then it must put on the ballot a proposed levy including purpose, whether it is permanent or for a fixed period (not to exceed five years), and the number of mills. The modal inside millage is about five mills so all school districts in the state have substantial voted millage. There is no upper limit on voted millage although there are mandated procedures in the voter approval process.

Property tax rates for operating schools (sum of mills inside the ten mill limitation plus voted mills) varies considerably among the state's school districts. The 1994 operating tax rates ranged from 20 to 76 mills. The average rate among the 611 districts was about 30 mills.

The mandated 20 mill property tax levy required for the basic support foundation program (Section II) is unrelated to the 10 mill limitation. The latter is part of the statute governing the levy of property taxes by taxing jurisdictions. School districts will have some portion of millage inside the ten mill limitation that requires no vote, but will have to receive a positive vote on all millage beyond the inside millage of the district.

House Bill 920

(Ohio Revised Code 319.301)

This bill enacted in 1976 is the Ohio version of Proposition 13. It provided for percentage reductions of taxes levied against real property being reappraised (every six years) or updated (every three years). These reductions remain in effect until there is a new increase or decrease in value (excluding new construction). New reduction factors are then calculated and applied. The basic effect is to eliminate increases in voted taxes that might occur when existing real property is reappraised or the valuation is updated. Thus even though the market value of real property increases, school districts do not benefit from it (except that part of the tax levy inside the ten mill limitation). This results in more frequent tax levies being put on the ballot in order to have revenues keep up with inflation.

Voter Approval of Bond Issues

Serial bonds may be issued by a school board but with several limitations. There is a limit on debts (outstanding notes, loans, bonds, etc.) of nine percent of the assessed valuation of the school district. Procedural limitations are also spelled out in state statutes. Major limitations of this order include a resolution of necessity approved by the school board by a two-thirds vote. This includes the purpose, amount, approximate interest rate, and other specifications. On the basis of the resolution of necessity the county auditor estimates a tax rate to pay the principal and interest on the issue. Election notices are specified and the bond issue referendum is held. Only two such referenda per year are permitted. A majority positive vote is required for passage.

Budget and Spending Controls

State law prohibits school districts from adopting a deficit budget, from closing a fiscal year in a deficit position, or from closing down operations because of a shortfall of revenues. If the latter appears to be imminent, the state requires school districts to apply for a loan under the Emergency School Advancement Loan Program (Ohio Revised Code 3313.483). Originally the state provided loans but as of October 1, 1989, school districts borrow from lending institutions, backed by approval of the State Controlling Board. In 1993-94, 59 districts made applications, of which 33 were approved for a total of $45.8 million in loans. The school district's loan obligations are paid to the lending institution by the state department of education from state funds the school district would receive pursuant to Sections 3317.022 to 3317.025 of the Ohio Revised Code.

XV. EARMARKED STATE REVENUE

Lottery Profits: $645.7 million (Section 46.14 of Am. Sub. H. B. 111 of the 118th General Assembly)

After allowing for operating expenses and prizes an amount is projected each year for lottery profits, which is appropriated and earmarked for three education line items. Recently, these appropriations have been $30 million for vocational education, $44 million for special education, and the remainder for basic education. In FY 94, these three line items totaled $618 million.

Also each biennium the General Assembly specifies that profits that exceed appropriations from the previous fiscal year will be allocated first, to cover any shortfall in the present year's appropriations; second, a certain percentage is allocated to the lottery profits education reserve fund; and third, any remaining excess profits are allocated to districts for special programs or projects specified in the budget bill.

In FY 94, there were $2 million in excess profits.

XVI. SPECIAL TOPICS

Ohio's BEST Practices is an initiative that seeks to identify and promote exemplary grassroots education programs at the school building, district, collaborative, or community level that have been successful in improving the performance of Ohios students, teachers, and schools. Nominations are solicited by member organizations of the Ohio Education Improvement Consortium (OEIC) and nominations also can be submitted directly to the OEIC. After an initial review, selected sites are visited by OEIC representatives to observe the education practice in action, to interview key participants, and to document the programs successes. To be eligible, a program must contribute materially to the National Education Goals and should lend itself to application in other schools and communities. The first set of selected programs will be announced in spring 1995.

OKLAHOMA

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I. GENERAL BACKGROUND

State

- The state appropriated share of funding for elementary and secondary education was $1,349.2 million for the 1993-94 school year. This represents 38.0 percent of the state's appropriated budget and 67.7 percent of total funding for elementary and secondary education.

- State dedicated funds, taxes that are collected in place of *ad valorem* taxes, totaled $226.8 million in 1993-94. Dedicated funds represent 11.3 percent of total funding for elementary and secondary education.

- In 1990, the Oklahoma Legislature passed the Oklahoma Education Reform Act, commonly referred to as House Bill 1017. House Bill 1017 drastically changed the school laws of Oklahoma and called for sustained increases in state aid over a five year period. In 1989-90, state appropriated funds for K-12 education totaled $878.7 million, in 1993-94 they totaled $1,349.2 million, representing an increase of 53.5 percent.

- House Bill 1017 increased the state's sales and use taxes, corporate income and bank privilege taxes, and personal income tax. By law, all revenues from these increases must be used only to fund the provisions of House Bill 1017.

- Major provisions in House Bill 1017 include smaller class size limitations, increases in the teacher salary schedule, early childhood programs, and mandatory kindergarten. House Bill 1017's revenue changes and education's traditional share of the state's general fund revenue growth (approximately one-third) allowed common education to receive a funding increase of $490.6 million over four years (1990-91 to 1993-94) and $542.5 million over five years (through 1994-95).

- The basic structure of the funding formula originally adopted in 1981 was left intact by House Bill 1017; however, several changes were made. These changes include the use of Average Daily Membership (ADM) as the basis for both tiers of the funding formula, the addition of weights for the economically disadvantaged, and a special factor for the sparsity/isolation of a school district.

- On September 6, 1990, the Fair School Finance Council Inc., which includes 38 school districts, filed a suit in Oklahoma County District Court attempting to have Oklahoma's school finance system invalidated over the issue of funding equity. The lawsuit has remained dormant since 1991.

Local

- In 1993-94, there were 554 school districts. This is down from 604 districts in 1989-90. In FY 1991, the Legislature appropriated $35.0 million for districts that consolidated voluntarily. Each district is a separate entity with its own board and superintendent. There are 436 independent districts with instruction in grades K-12, and 118 dependent districts with instruction in grades K-8 with grades 9-12 attending adjacent independent districts.

- The enrollment of K-12 students on September 15, 1993, was 603,454, an increase of 4.2 percent since 1990. During this period the average number of teachers increased 9.3 percent (from 36,273 to 39,676), and the average teacher salary increased 17.7 percent (from $24,955 in 1990 to $29,389 in 1994).

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,501 million
Grants in aid	1,349 million	
Teacher retirement contributions	152 million*	
FICA	0	
Total Local School Tax Revenue		$642 million
Property tax revenue	415 million	
Other local source tax revenue	227 million	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$2,143 million
State Financed Property Tax Credits Attributable to School Taxes	0	

* From dedicated gross production taxes, not state appropriations.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $1,349.2 million (89.9% of total state school aid; 100% of total state appropriated grants in aid).

Nature of Program: Oklahoma's state aid funding formula is a two tiered equalization formula. The state aid formula is the sum of (1) Foundation Aid, (2) Salary Incentive Aid, and (3) Transportation Supplement. Foundation Aid and Salary Incentive Aid are equalization formulas, the Transportation Supplement is not.

Allocation Units: Pupils. State equalization funds are distributed on a weighted Average Daily Membership (ADM).

Local Fiscal Capacity: Assessed property value. Local *ad valorem* revenues are generated through local school levies and account for 20.8 percent of total funding for elementary and secondary education. The Oklahoma Constitution restricts the number of mills each district can levy for operating expenses.

How the Formula Operates: In Foundation Aid, 18 mills of the local *ad valorem* revenues, all of the dedicated revenues, and three-sevenths of the state appropriated equalization funds are considered. For the 1993-94 school year, Foundation Aid guaranteed $1,139 per weighted child. In making this calculation, state appropriated monies are used to fund the difference between what the district is entitled to from all three of these sources and what can be provided from local and dedicated revenues. State aid is represented by the following formula:

$$SA = TFF - (L+SD)$$

where: SA = state appropriated funding
TFF = total foundation funding
L = local revenues
SD = state dedicated revenues

The total foundation funding (TFF) is determined by multiplying the per student guaranteed foundation amount, as decided by the Legislature, by the total weighted ADM. Local *ad valorem* revenues and state dedicated revenues become "chargeable" when determining the amount of state appropriated dollars each district will receive. For every dollar of local *ad valorem* revenue or dedicated revenue available to a district, the district will receive a dollar less from state appropriated funds towards meeting its foundation funding.

Incentive Aid considers 20 mills of the local *ad valorem* revenues and four-sevenths of the state appropriated equalization funds. While Incentive Aid uses a different approach than Foundation Aid, it produces the same result — the equalization of variances in local support. For the 1993-94 school year, Oklahoma's Incentive Aid program guaranteed every school district $55.12 per mill per weighted child for each operational mill levied above 15 mills. This represents 20 mills (maximum allowable levy is 35 mills) for every school district in the state. The total guaranteed funding per weighted ADM is $1,102.40 ($55.12 times 20 mills).

State Share: The foundation and incentive levels for the state aid funding formula are set each year by the Legislature. They are based on the total funding that is appropriated through the equalization formula.

Local Share: The Oklahoma Constitution restricts the number of mills that can be levied for operational purposes to 39, consisting of (1) a 15 mill operational levy that is under the authority of the local school board, (2) a ten mill local support levy and a five mill emergency levy that must be annually approved by the voters, (3) five mills from the county 15 mill levy, (4) and an automatic four mill county school levy. Funds for construction, maintenance, and equipping of school facilities are generated through building or sinking fund levies.

Weighting Procedures: Weighting systems attempt to account for variances in the individual characteristics of the local schools that affect the costs of providing an education. In Oklahoma, the differences addressed include the characteristics of individual students, differences in the experience and educational levels of teachers, student populations, and geographical considerations. Under the Oklahoma system, each full-time student is awarded a beginning weight of one. After this, additional value is added depending on individual characteristics of the student or district. State aid weights are as follows:

Grade Level Weights (multiply by each ADM)	
Early Childhood Program	0.500
Kindergarten	1.300
1st - 2nd Grade	1.351
3rd Grade	1.051
4th - 6th Grade	1.000
7th - 12th Grade	1.200

Pupil Category Weights (added to Grade Level Weight totals)	
Vision Impaired	3.80
Learning Disabilities	0.40
Hearing Impaired	2.90
Deaf and Blind	3.80
Educable Mentally Hand.	1.30
Emotionally Disturbed	2.50
Multiple Handicapped	0.34
Physically Handicapped	2.40
Speech Impaired	0.05
Trainable Mentally Hand.	1.30
Bilingual	0.25
Spec. Educ. Summer Prog.	1.20
Gifted and Talented	0.34
Economically Disad.	0.25

Weighted District Calculation	
Small School Weight	Varies
Isolation Weight	Varies
Teacher Experience and Degree	Varies

Adjustments for Special Factors: Any district with membership growth of greater than 1.5 percent on October 1, compared to the higher ADM of the previous two years, is eligible for supplemental mid-term funding. Funding for this purpose is considered by the Legislature during the regular legislative session. For the 1993-94 school year, 214 districts were eligible for $9.7 million in mid-term funding. Due to budget constraints the Legislature funded only 71.0 percent of this amount.

Aid Distribution Schedule: Districts receive monthly one-eleventh payments of their appropriated funds between August 1 and June 30.

Districts Off Formula: Of the 554 school districts;

a) eight receive no foundation aid because their local fiscal capacity is to high.

b) eight receive no incentive aid because their local fiscal capacity is to high.

c) four receive no foundation or incentive aid because their local fiscal capacity is to high.

d) seven receive state aid through hold-harmless provisions.

III. TRANSPORTATION

Funding in 1993-94: $21.5 million (1.4% to total state school aid).
Distributed through the transportation aid formula.

Description: The Transportation Supplement is equal to the average daily haul multiplied by the per capita allowance multiplied by the appropriate transportation factor. The average daily haul is the number of children in a district who are legally transported and who live 1.5 miles or more away from their school site. The per capita allowance ranges from $33 to $167. The formula transportation factor has been 1.39 for several years.

State Share: Funding is through the state aid formula.

Local Share: Local districts pay costs not covered by state aid.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

State aid is not provided for capital projects or debt service.

Local Capital Project Financing

All capital expenses are met at the local level. School districts can use building fund levies or sinking fund levies for their capital expenditures.

Building Fund Levy. The Oklahoma Constitution provides that each school district may levy up to five mills for the purpose of erecting, remodeling, and repairing school buildings, or for purchasing furniture. The building fund levy is placed on the ballot in the annual school election and must be approved by the majority of the voters. For the 1993-94 school year, all 554 school districts utilized the building fund levy with revenues totaling $54.5 million.

Through various legal interpretations, the ability to use money in the building fund has been liberalized so that it can be used not only for maintenance, but also for the purchase of equipment. In some cases, it is used for operational expenses related to building upkeep. The Attorney General has opined that payment of property and casualty insurance can be made from this fund.

Sinking Fund Levy. Each school district is authorized to borrow money up to an amount that does not exceed ten percent of the district's total assessed valuation. Money is borrowed through the issuance of bonds after the bond issue has been approved by 60 percent of the voters. For 1993-94, 307 districts issued sinking fund levies totaling $116.3 million.

The sinking fund levy (number of mills) is determined following the approval of the bond issue. The levy is set at a rate that will yield enough money to pay the principal and interest on the bond issue. The number of mills levied will vary by district as to the size of the bond issue, the term of the bonds, and the interest rate. Many districts have no sinking fund levy, and others have levies exceeding 30 mills. Additionally, sinking fund levies may be ordered by a court to fund debts of the school district when the district has unlawfully expended monies beyond its lawful appropriation.

V. TEACHER RETIREMENT

Funding in 1993-94: $151.7 million (10.1% of total state school aid).

Description: Public employee retirement plans retain actuaries to calculate the employer contributions necessary to systematically accumulate the money required to fund the pension obligations. In most instances, this contribution includes an amount representing the benefits that will accrue to members during the next plan year (known as the "normal cost") and an amount that amortizes the unfunded actuarial accrued liability over a period of time, usually ranging from 20 years to 40 years. Typically the required contribution is expressed as a percentage of the employer's payroll.

It has been determined that the retirement system is currently underfunded. To address the problem the legislature developed in 1992 a new funding schedule for the entire member and employer/state contribution. The current employer/state contribution rate of 7.5 percent is not large enough to pay the normal cost and to pay interest on the unfunded actuarial accrued liability (UAAL). Positive amortization is not expected to begin until 2001.

State Share: The state contributes 78 percent of 55.7 percent of its gross production tax receipts directly to the Teachers' Retirement System. This state contribution is used to offset the amount the local school district must contribute.

Local Share: School districts are required to contribute 7.5 percent of their payroll to the Teacher Retirement System. The employer rates are scheduled to increase from seven percent for 1992-93 until they reach 18 percent for 2004-05. However, this local employer contribution will be reduced by the amount of the State's gross production tax receipts, as explained above. Employee contributions are a percentage of their gross salary (six percent up to $25,000, and an optional nine percent between $25,000 and $40,000). After July 1, 1997, employee contributions will be seven percent of gross salary (not capped at $40,000).

VI. SPECIAL EDUCATION

Description: Special Education funding is provided within the state aid formula. The weights in the funding formula direct $101.6 million from both local and state funding sources for special education based on the weighted ADM special education weights. Special Education categories and the assigned weights are listed below:

Vision Impaired	3.80
Learning Disabilities	0.40
Hearing Impaired	2.90
Deaf and Blind	3.80
Educable Mentally Hand.	1.30
Emotionally Disturbed	2.50
Multiple Handicapped	0.34
Physically Handicapped	2.40
Speech Impaired	0.05
Trainable Mentally Hand.	1.30
Bilingual	0.25
Spec. Educ. Summer Prog.	1.20

State Share: State share is determined by the state aid funding formula.

Local Share: Local districts assume any costs not accounted for in the state aid formula.

Extent of Participation: All 554 districts receive funding based on special education weights.

VII. COMPENSATORY EDUCATION

Alternative Education Grants

Funding in 1993-94: $1.0 million (less than 1.0% to total state school aid).

Description: Alternative Education is a competitive grant program for school districts interested in providing alternative education programs for students at risk of not completing their high school education.

State Share: Appropriations made by the Legislature.

Local Share: Local districts assume any cost differences.

Extent of Participation: 16 districts received Alternative Education Grants.

High Challenge Grants

Funding in 1993-94: $0.65 million (less than 1.0% to total state school aid).

Description: High Challenge Grants are for schools who tested in the lowest quarter of Oklahoma students and who tested below the national average score for three or more consecutive years.

State Share: Appropriations made by the Legislature.

Local Share: Local districts assume any cost differences.

Extent of Participation: 15 districts received High Challenge Grants.

VIII. GIFTED AND TALENTED EDUCATION

Gifted and Talented programs are for students who score in the top three percent on standardized tests and/or students who have been recommended by the school faculty for having strong leadership skills or talent in the arts. Districts receive funds for the number of students reported and served. Funding is included by the pupil category weight of the state aid formula. Each district has an approved policy statement on file with the State Department of Education.

IX. BILINGUAL EDUCATION

Bilingual education is funded through the state aid formula. A special pupil category weight is assigned to each bilingual student on districts rolls. Bilingual students are defined as students who speak a language other than English in the home.

X. OTHER CATEGORICAL PROGRAMS

Purchase of Textbooks

Funding for textbooks for the 1993-94 school year was $14.1 million. This is approximately $25.00 per ADA.

Psychometric Services

Funding is provided to help districts with the cost of testing students who have been identified by either a teacher or a parent as having potential learning disabilities. Funding for the 1993-94 school year for psychometric services was $950,000.

Teacher Consultants

Funding for teacher consultants for the 1993-94 school year was $1 million. First-year teachers are assigned a teacher consultant (or "mentor") who helps supervise, advise, and evaluate their performance. Teacher consultants are paid approximately $500 annually.

School Lunch Matching/Program

School lunch programs were appropriated $6.2 million for 1993-94. School lunch programs follow guidelines provided by the National School Lunch Act.

Homebound Children

Funding of $1.2 million was provided for school districts to help offset the cost of providing educational services to children who are permanently or temporarily homebound due to physical disabilities.

Library Resources

Library Resource Grants are competitive grants for school districts to help aid in the cost of expanding and updating school libraries. The grants are for three years with diminishing funding the second and third year. Beginning in 1993 the Legislature began phasing out these grants and placing the money into the state aid formula.

Adult Education Matching

The Adult Basic Education program provides basic skills and General Education Development (GED) preparation classes. Eligible students are educationally disadvantaged adults who are not high school graduates and are not currently enrolled in school. There are 40 Adult Education Learning Centers that provide services. Thirty-nine of the centers are public schools and one is operated by the Oklahoma Department of Corrections. For the 1993-94 school year, $681,535 was provided to match increases in federal funding.

Driver Education

For conducting driver education classes school districts receive a maximum reimbursement of $65.00 per student. For the 1993-94 school year districts received $1.7 million in reimbursements.

Early Intervention

The Soonerstart Early Intervention Program is an interagency collaborative program that serves infants and toddlers (ages 0-36 months) with disabilities. The State Department of Education is the agency in charge of this program. Funding for this program is appropriated by the Legislature. For the 1993-94 school year, the Soonerstart Early Intervention Program received $4.9 million.

Parent Training Program

This program is a voluntary partnership between teachers and parents that is designed to help educate parents on how children develop both physically and mentally and emphasizes the importance of the parents role as their child's first teacher. Funding for the 1993-94 school year was $1.6 million.

School/Community Network for Arts-In-Education

This program enables school districts that cannot afford a full-time art instructor to contract with local artists to teach art. Funding for the 1993-94 school year was $138,000. Additional funding is provided by the Oklahoma Arts Council.

Instructional Cooperative and Technological Education

Competitive grants are awarded to school districts that integrate technology into their core curriculum. Funding for the 1993-94 school year was $900,000.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Oklahoma does not provide state aid for private schools.

XII. EARLY CHILDHOOD EDUCATION

Funding for early childhood education is provided through the state aid formula by the use of pupil grade weights. Districts that offer early childhood programs are permitted to include all headstart eligible children on their grade weight rolls. School districts have the discretion of charging tuition to children who are not headstart eligible. The tuition is based on a sliding income scale. Children who are charged tuition cannot be counted on pupil grade weight rolls.

Also, see Section X — Early Intervention.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

The following are the three classifications of property for the purpose of *ad valorem* taxation:

Public Service Property is statutorily defined as transportation companies, transmission companies, utility companies, and all persons authorized to exercise the right of eminent domain or use rights-of-way.

Real Property is statutorily defined as land, mineral rights, and buildings or other structures.

Personal Property is statutorily defined as all goods and effects, improvements made upon land, livestock, household furniture, machinery, and all other property having taxable status not included within the definition of real property.

Real and personal property of individuals and businesses is valued and assessed by the county assessor of the county in which the property is located. Public service property is valued and assessed by the State Equalization Board (a Constitutional Board that consists of the Governor, State Auditor, State Treasurer, Lieutenant Governor, Attorney General, and the Superintendent of Education).

The Oklahoma Constitution provides that property cannot be assessed for more than 35 percent of its fair cash value. However, the State Equalization Board has the authority to set ranges for assessment ratios. The Board has established a range of 11 to 14 percent for real property and 10 to 20 percent for personal property. The assessment ratio for public service property is set separately (22.85 percent in 1993).

For the 1993-94 school year, school districts received $278.1 million from real property, $74.4 million from personal property, and $72.8 million from public service property.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

The Oklahoma Constitution restricts the number of *ad valorem* millage levies school districts may use for the support of public schools. Each levy is listed below with an explanation of the specific provisions.

General Fund Levies:

Type of Levy	*Constitutional Restriction*	*Purpose of Levy*	*Authority*
Certification of Need	15 mills maximum	Support of Schools	Annual Elections
County Levy	5 mill minimum	Support of Schools	County Excise Board
Emergency	5 mills maximum	Support of Schools	Annual Elections
Local Support	10 mills maximum	Support of Schools	Annual Elections

These four levies add up to a total of 35 mills for the general fund. The Constitution does not allow going above these maximums. The system has evolved to the point that these millage levies are not really optional. In effect, there is not a constitutionally permissible way for a district, even by approval of the voters, to raise additional *ad valorem* levies to support the general operation of the schools.

Other Millage Levies. The Building Fund levy is a Constitutional levy that has a five mill maximum. The Building Fund can be used for the purpose of erecting, remodeling, and the repairing of school buildings. The building fund levies must be passed in annual elections.

The Constitution authorizes sinking fund levies for capital financing. These levies must be approved with a 60 percent majority vote.

Spending Limits

Not applicable.

Voter Approval of Budgets and Bond Issues

A majority of voters in annual school elections is required to pass the certificate of need levy, emergency levy, local support levy, and building fund levy. Sinking fund levies must be passed with a 60 percent majority

XV. EARMARKED STATE REVENUES

State dedicated funds are taxes that are collected in place of *ad valorem* taxes. The largest portion of these funds is generated from licenses and fees on motor vehicles ($145.3 million). Other dedicated revenues include taxes collected on power lines owned by rural electric associations ($12.2 million), school land earnings ($40.6 million), gross production taxes for operating expenses ($28.4 million), and gross production taxes for retirement contributions ($151.7 million).

XVI. SPECIAL TOPICS

Alternative Education

Beginning in the 1994-95, Oklahoma schools will begin a new alternative education program. Nine schools districts have been identified as having the highest number of high school dropouts and the highest number of children referred to the juvenile justice system. These nine districts will begin implementation of pilot alternative education programs designed to keep at-risk children from dropping out of school. The Legislature appropriated $2 million for alternative education for 1994-95, with an additional $2.1 million scheduled to be appropriated for the 1995-96 school year.

In addition to the nine pilot schools, every school district in Oklahoma must complete an alternative education needs assessment by December 1, 1994, and submit an education plan by May 1, 1995.

OREGON

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I. GENERAL BACKGROUND

State

- Oregon's state funding formula had its origins in an initiative petition approved by the voters in November 1946. The first distribution was made in the school year 1947-48. Legislatures subsequent to that time have made a variety of changes in the way the funds are appropriated and distributed.
- The state's share of school district revenue has drifted downward over the past decade from nearly 40 percent of school district operating expenditures in 1980 to under 30 percent in 1990. An initiative petition (Ballot Measure 5) approved by the voters in November 1990 and effective as of July 1, 1991, amends the Oregon Constitution to limit property tax rates for the public school system to 15 mills in 1991-92 with a systematic reduction (2.5 mills per year) to five mills in 1995-96. The state's general fund is required to replace, until 1996, property tax revenues lost to the school system due to the limitation. Only property taxes imposed to pay principal and interest on voter approved bonded indebtedness incurred for construction or capital improvements are exempt from the limitation. Essentially, approval of this initiative petition is changing Oregon's school funding from a heavy reliance on local property taxes to a predominantly state funded system.
- For the three years ending with 1991-92, Oregon school funding was in transition from the previous distribution formula suspended in 1989 to a new foundation program based on weighted students set to take effect in 1992-93. However, due to reductions in school funding, the shifts resulting from the effect of this permanent funding formula have been legislatively limited by hold harmless and capping provisions. In 1993-94, the constraints to the permanent formula were continued while targeting $10 million for equalization.
- State funds for the public school system are derived from the state income tax. Oregon does not have a sales tax; attempts to find a source of new funding to replace the property taxes lost due to the property tax limitation have failed.
- Although there is one school finance case still under appeal, attempts by a coalition of school districts to challenge the school funding system in state courts have been unsuccessful. The new funding formula enacted for 1992-93 is believed to answer the specific concerns previously raised by unequal funding and heavy reliance on local property taxes.

Local

- The state had in excess of 500,000 students enrolled in 277 fiscally independent districts in 1994, of which 186 were responsible for grades K-12, 74 were elementary, and 17 were union high districts (251 districts in 1994-95).

In addition, there were 29 fiscally independent education service districts (ESDs) that provided a range of programs and services to the districts in their service area.

- Property taxes constitute the sole source of local district tax revenues (there is no state property tax).
- Tax levy increases are limited by two constitutional provisions that can be overridden by voter approval of a higher "tax base" or operating levy. No more than a simple majority vote is needed.
- A school district may levy a "tax base" amount that is limited to an increase of six percent per year. If the tax base is inadequate, a "safety net" amount may be levied. The "safety net" amount is limited to the amount levied for operations the previous year. The recently enacted property tax rate limitation (Ballot Measure 5) is an additional constitutional limitation that limits the rate of property tax imposed; the "tax base" and "safety net" limitations limit the levying authority of a school district.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,179 million
Grants in aid	1,179 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Revenue		$1,296 million
Property tax revenue	$1,282 million	
Other local source tax revenue	14 million	
Local source non-tax revenue0		
Total Combined State and Local School Revenue		$2,475 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

State School Fund

Funding in 1993-94: $1,017 million (86.3% of total state school aid).

Nature of Program: Foundation program known as the State School Fund (Chapter 780, Oregon Laws 1991).

Allocation Units: Pupils. Weighted Average Daily Membership (WADM).

Local Fiscal Capacity: Equalized assessed property valuation plus timber revenue, federal aid, and other revenue sources.

How Formula Operates: A general purpose grant is calculated by multiplying a target grant times district WADM times a funding percentage. The target grant is statutorily set at $4,500 per WADM. An adjustment to the target grant amount is made on the basis of the difference between the district's average teacher experience and the statewide average teacher experience. Twenty-five dollars is added to or subtracted from the target grant for each year a district's average teacher seniority in years exceeds or is less than the statewide average teacher experience.

Due to revenue shortfalls for 1993-94, the funding formula was frozen based on the 1992-93 per-student amount, with each district taking an equal per-student reduction in operating revenue compared to the previous year.

In addition, $10 million was set aside to aid the lowest spending districts and a stop-loss was implemented to ensure that no district would lose more than ten percent in revenue from the 1992-93 fiscal year.

State Share: The state's share is determined by subtracting from the general purpose grant most general revenues received by school districts, including property taxes imposed, timber related revenues, supplantable federal funds received without specific application, in lieu of property tax revenues, and other general revenues statutorily dedicated to schools.

Local Share: The district's share of the general purpose grant consists of property taxes levied (subject to the district's voter approved levying authority and the property tax rate limitation of 10.0 mills for the public school system) and the other revenues listed above as subtractions in determining the state's share.

Weighting Procedures: Kindergarten students are weighted at .5.

Weighted average daily membership equals WADM of year of distribution or WADM of prior year, whichever is greater. WADM consists of ADM for the year ending June 30, plus the following additional amounts:

1. 1.0 for each student eligible for special education (not to exceed 11% of district ADM without review and approval of the Department of Education). Also includes students in programs for pregnant and parenting teens;
2. .5 for each student eligible for and enrolled in English as a Second Language programs;
3. .2 for each student enrolled in a union high district;
4. Minus .1 (-.1) for each student enrolled in an elementary district;
5. For each student in a school operated as a necessary small school, .004 times the difference between the number of students in the school and 251;
6. .25 times the total of the number of children 5 to 18 years of age in poverty families based on the 1990 census adjusted by the number of students in the year of distribution divided by the number of students in the district in 1990, plus the number of children in foster homes, plus the number of children in state recognized facilities for neglected and delinquent children.

Total additional weight per student cannot exceed 2.0, exclusive of item 6 above.

Other weighting factors have been identified for consideration. These include regional differences in the cost of education, high mobility students, especially migrant and homeless, prekindergarten, and secondary school program alternatives.

Adjustments for Special Factors: School size/sparsity adjustment through ADM weighting formula. For a school to qualify for additional weighting as a remote small school, it must have 250 or fewer students. In addition, an elementary school must be ten miles away from the nearest elementary school and a high school must be 15 miles away from the nearest high school to be considered a remote school.

Aid Distribution Schedule: Schedule of Aid Payments:

August 15th	16.67%
October 15th through April 15th	8.33% each month
May	25% or as adjusted for actual revenues

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: Estimated at $78.4 million (6.6% of total state school aid).

Description: Districts receive funds based on the costs of transporting public elementary students living at least one mile from school, public secondary school students living at least 1.5 miles from school, students transported for health or safety reasons (if a supplemental plan is approved by the State Board), handicapped preschool children, room and board in lieu of transportation, students between schools, and students participating in field trips that are an extension of the classroom learning experience. Approved costs include depreciation of district-owned buses at ten percent of actual cost per year. Funds attributed to depreciation must be used for purchase of new buses or transportation equipment (Chapter 780, Oregon Laws 1991).

State and Local Shares: The state funds 70 percent of approved transportation expenditures. The district assumes the remaining 30 percent.

Extent of Participation: All 277 local school districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State school aid is not provided for capital outlay financing. Capital outlay needs generally are met from the sale of bonds. Bond issues require voter approval. Once approved, the levy to pay the principal and interest is not subject to any tax rate or levy limitation. ($10 million was made available from lottery funds in 1994-95 for capital projects.)

V. TEACHER RETIREMENT

The Oregon Public Employees Retirement System sets the local district contribution rate. The rate is currently set at 9.88 percent. The employee contribution is six percent, but in almost all cases the six percent is picked up by the local school district as a result of collective bargaining. (However, Ballot Measure 8, approved by voters in November 1994, requires public employees to pay the six percent employee contribution.)

VI. SPECIAL EDUCATION

Funding in 1993-94: $29 million (2.4% of total state school aid).
Includes $6.5 million for the Oregon State School for the Blind and the Oregon State School for the Deaf.

Description: The state provides services, either directly or through contract, to severely handicapped hearing impaired, visually impaired, autistic, and/or orthopedically impaired children. Six regional programs, the Oregon State School for the Deaf, and the Oregon State School for the Blind provide services to over 2,000 preschool and school-age students.

The state also contracts with local school districts or education service districts for the provision of educational programs in state-operated hospitals and private hospitals, as well as private agency programs with which the Children's Services Division contracts for long-term care or treatment (ORS Chapter 343).

State Share: The state provides full funding for the support services provided through the regional programs. The state funds 100 percent of costs for the State School for the Deaf, State School for the Blind, hospital programs, and private agency programs above the amount billed to the county of residency of the student.

Local Share: Local funding is derived from a billing to the county of residency for each student in these programs for the average educational cost per student in that county. Each county's share is paid from the County School Fund. The County School Fund (ORS 328.005-045) consists of a statutorily required tax levy portion and a 25 percent share of the National Forestry Receipts allocated to each county. The tax levy portion is the lower of $10 per census child (ages 4-20) or the minimum amount a county was required to levy in 1965-66. After payment of the required contribution for special education, the remaining funds are distributed to school districts on a per ADM basis.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: Less than $1 million allocated to Portland School District 1J.

VIII. GIFTED AND TALENTED

Funding in 1993-94: Less than $1 million.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Professional Development

Funding for 1993-94: $5.0 million (less than 1.0% of total state school aid).

Description: The Staff Development Program provides resources and support to enable local schools and school districts to design and implement local training and retraining of professional staff in improvement of curriculum and instruction methodologies (ORS Chapter 329).

State Share: Fully funded by state appropriation.

Extent of Participation: 342 out of 1,167 schools.

Student Driver Training

Funding for 1993-94: $1.6 million (less than 1.0% of total state school aid).

Description: A student driver training program for public and private school students is funded by fees collected by the Motor Vehicles Division for the Student Driver Training Fund (ORS 343.705-750).

State Share: The state pays 90 percent of the cost of conducting the course or $175 per student, whichever is lower. Prorata reductions are made if funds are inadequate to pay all approved claims in full.

Extent of Participation: Approximately 150 school districts.

Educational Service Districts

Funding for 1993-94: Approximately $25.5 million (2.2% of total state school aid).

Description: Funds are provided to compensate educational service districts (ESDs) for the loss of property tax revenue as a result of the November 1990 passage of the constitutional restriction on the rate of property tax available to fund education (ORS Chapter 327).

State Share: The state will fund 71.33 percent of property tax revenue uncollectible as a result of the property tax limitation.

Extent of Participation: All 29 ESDs.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Early Intervention and Oregon Prekindergarten Program

Funding in 1993-94: $24.5 million (2.0% of total state school aid).

Description: Preventive approach to meeting the needs of low income 3- and 4-year-olds. Also includes early childhood special education services to no less than ten percent of the children served in prekindergarten programs. Also included are services to preschool children with disabilities from birth to three years of age (ORS 329).

State Share: The state pays full cost of programs. Services are provided through contracts with public or private providers.

Extent of Participation: The prekindergarten program serves 1,891 eligible 3- and 4-year-olds.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax used to fund schools. It is expected to raise approximately $1,282 million in 1993-94.

Property is assessed at 100 percent "real market value," which is constitutionally defined as the minimum amount of cash that could reasonably be expected in an "arm-length" transaction during the period for which the property is taxed. Statute provides for exemption or special assessment for certain types of property.

County assessors determine the value of property in each of the 36 counties, except that utilities and some large industrial properties are centrally assessed at the state level. Statute requires that each property be physically reappraised over every six years. As recently as five years ago, the majority of Oregon's counties were out of compliance with this requirement.

Staff reduction at the state level had reduced the state's ability to conduct compliance studies and to provide supervision and assistance to the county assessors. Counties, facing revenue shortages, were at the same time cutting back on the assessment function. Measures to correct this deficiency were enacted during the 1989 Legislative Session.

XIV. TAX AND SPENDING LIMITS

Ballot Measure 5

In November 1990, Oregon voters approved an initiative petition constitutionally limiting property tax rates (Article XI, Section XIb). Non-school taxing districts are limited to ten mills. Once the limit is reached, a non-school district receives its proportionate share of the total taxes imposed under the ten mill limit.

School districts are limited to ten mills for 1993-94. Each year the mileage rate will be reduced by 2.5 mills until the five mill limit is reached in 1995-96.

This measure requires the Legislative Assembly to replace from the state's general fund any revenue lost by the public school system because of the limitations on property taxes resulting from this measure. The state was able to meet this obligation for 1993-94 without the enactment of a replacement tax. The state's obligation increases dramatically in future years, resulting in the potential of a major strain on state resources.

Six Percent Limitation

The Oregon constitution (Article XI, Section XI) defines a tax base as an amount obtained by adding six percent to the total tax levied by the taxing unit, exclusive of bonded debt or special levies in any one of the last three years. A tax base may be levied (subject to Ballot Measure 5 limits) without voter approval.

A new tax base — specified in dollars, not rate — may be established if approved by the voters.

Safety Net

Approved by the voters in 1987, mainly to prevent school closures, the "safety net" (Article XI, Section XIa) provides a school district the authority to levy for operating purposes a dollar amount not in excess of the amount levied for operating purposes in the preceding year. As above, this levy authority is subject to the Ballot Measure 5 rate limitation.

For school districts with an inadequate or nonexistent tax base, the "safety net" provides levy authority without the requirement for annual voter approval of one-year special levies.

Bonded Debt

Ballot Measure 5 exempts from the rate limitation the property tax levy for the repayment of principal and interest of general obligation bond issues for capital construction or improvements. Voter approval is required for general obligation bonds. Bonded debt amounts are limited to the following percentages of real market value of all taxable property in the district:

- For each grade K-8 for which the district operates schools, .0055 of real market value.
- For each grade 9-12 for which the district operates schools, .0075 of real market value.

Budget Deficits

Statute prohibits budget deficits by prohibiting maturities on notes from extending beyond the end of the fiscal year.

XV. EARMARKED STATE REVENUE

The Common School Fund ($10.6 million in 1993-94) was established by the Oregon Constitution (Article VIII, Section 2) in 1859, at which time the federal government granted to the state the 16th and 36th section of every township to support the public schools. Proceeds from the management of these lands accrue to the Common School Fund principal. The income earned on this principal is distributed to school districts twice each year.

XVI. SPECIAL TOPICS

None.

PENNSYLVANIA

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I. GENERAL BACKGROUND

State

- The state share of local school district general fund revenue has remained relatively stable over the past ten years, varying between 37.1 percent and 39.8 percent. In 1992-93, the general fund revenue of school districts was $10.9 billion with $4.2 billion provided from state sources. The state percentage is actually higher if adjusted to reflect the direct state contribution to the Public School Employee's Retirement System to area vocational-technical schools (AVTSs), and to intermediate units for special education. During 1992-93 the retirement contribution amounted to $431.6 million, funding to AVTSs amounted to $33.5 million, and funding to intermediate units amounted to $88.9 million. The state's direct payment to the retirement system, AVTSs, and intermediate units plus federal revenues to AVTSs and intermediate units increases total school revenue to $11.6 billion and state support to 40.6 percent.

- The largest general aid formula is called the Equalized Subsidy for Basic Education (ESBE). It took effect in 1983-84; however, since 1992-93, the amount allocated to each school district has been equal to the amount allocated in 1991-92.

- State funds for public education come from state general fund revenue raised mainly through a state sales tax of six percent, a personal income tax of 2.8 percent, and corporate net income tax of 12.25 percent (reduced to 11.99 percent in 1994 and 10.99 percent in 1995). The total state budget for direct and indirect aid to public education amounted to approximately $5.3 billion in 1993-94 and was approximately 35.4 percent of the state's total general fund.

- The Pennsylvania Association of Rural and Small Schools (PARSS) filed suit against the Commonwealth's school funding system in January 1991. As of October 1994, 206 districts were participating in the lawsuit. The suit alleges that the Pennsylvania school funding system is unconstitutional under both the thorough and efficient and the equal protection clauses of the Pennsylvania Constitution. This is the second attempt to overturn a Pennsylvania school funding system on constitutional grounds. A previous attempt by the Philadelphia School District in 1979 (*Danson* v. *Casey*) was unsuccessful.

Local

- Pennsylvania has 501 school districts. The Philadelphia School District is the only fiscally dependent district; it is dependent upon the city council for local revenue. One school district does not operate any schools. Additionally, there are 29 intermediate units mainly providing special education services and 74 area vocational-technical schools (AVTS).

- A total of $6.2 billion in local revenue was budgeted by Pennsylvania school districts in 1992-93. Local revenue included: $4.8 billion (77.5 percent) from property-based taxes, $641.2 million (10.3 percent) from income and occupation-based taxes, $261.9 million (4.2 percent) from other local taxes, $303.8 million (4.9 percent) from delinquent taxes, and $191.2 million (3.1 percent) from other local revenue sources.

*Funding Summary, 1992-93**

Total State School Aid (All programs)		$4,722 million
Grants in aid	4,067 million	
Teacher retirement contributions	432 million	
FICA	223 million	
Total Local School Revenue		$6,217 million
Property tax revenue	4,818 million	
Other local source tax revenue	1,399 million	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$10,939 million
State-Financed Property Tax Credits Attributable To School Taxes	0	

* The funding summary covers the 1992-93 school year. It was the latest year for which complete education finance data — state and local — was available. The sections below report state aid provided for the 1993-94 school year.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $3,091.3 million.

Nature of Program: Foundation. The basic support program is generally a percent equalized foundation program. The Equalized Subsidy for Basic Education (ESBE) distributed $2,961.3 million equal to the amount allocated in 1991-92. The Equity Supplement distributed $129 million. *In 1994-95, the Foundation Funding for Equity distributed an additional $123.2 million.*

Allocation Units: Pupils. Average daily membership (ADM) is the basic allocation unit. ADM equals the sum of the enrollment count for each day in the school year divided by the number of days in the school year. ESBE used a weighted average daily membership (WADM). The WADM is calculated by weighting half-time kindergarten ADM at 0.5, full-time kindergarten and elementary ADM at 1.0, and secondary ADM at 1.36.

Local Fiscal Capacity: The measure of local wealth is called the market value/personal income (MV/PI) aid ratio. The 1993-94 aid ratio used 1991 market value and 1991 personal income. The MV/PI aid ratio is calculated as follows:

$$\text{MV/PI aid ratio} = .6 \times \text{MV aid ratio} + .4 \times \text{PI aid ratio}$$

$$\text{MV aid ratio} = 1 - \left(\frac{\text{District market value/District WADM}}{\text{State market value/State WADM}} \times .5 \right)$$

$$\text{PI aid ratio} = 1 - \left(\frac{\text{District personal income/District WADM}}{\text{State personal income/State WADM}} \times .5 \right)$$

The measure of local tax effort is called the equalized mill, which is the total taxes collected divided by the market value of the district.

How Formula Operates: The ESBE formula distributed $2,487.9 million, 84 percent of its total, through the Base Subsidy on Account of Instruction; the payment to each school district was the Factor for Educational Expense (FEE), determined by the General Assembly to be $2,550 for payable 1991-92, times the district's MV/PI aid ratio times the district's WADM.

The Equity Supplement distributed $93 million, 71.7 percent of its total, through an expenditure component. Qualifying districts received a pro-rata share of the $93 million based on the district's MV/PI aid ratio times its ADM. To qualify, a district had to have a MV/PI aid ratio for payable 1992-93 of .5000 or greater, an equalized mill for school year 1990-91 of 19.5 or greater, and a total expenditures per ADM for school year 1990-91 of $6,193 or less.

In 1994-95, the Foundation for Equity will distribute approximately $78 million, 63.3 percent of its total, through a foundation component. School districts with a level of local and state support less than $4,700 per ADM will receive funds to raise that level of support to $4,700.

State Share: For ESBE and the Equity Supplement, the state share is as described in the formula above.

For the foundation component of the Foundation Funding for Equity, the state support equals the 1993-94 allocations for ESBE, the Equity Supplement, Public School Employees' Social Security, and Public School Employees' Retirement Fund. Additionally, the state share includes the amount needed to bring the level of local and state support to $4,700 per ADM.

Local Share: For ESBE and the Equity Supplement, there is no local share in the basic support program. *For the foundation component of the Foundation Funding for Equity, the local support is the total dollar amount represented by 18.0 mills on the 1992 market value and .5 percent of the 1992 personal income for the district. This local support level is not mandated but rather an assumed local share used in determining the state support from the foundation component.*

Weighting Procedures: ESBE used the weighted average daily membership described under Allocation Units.

Adjustments for Special Factors:

ESBE

Economic Supplement on Account of Children in Low Income Families. This supplement was earned by school districts in which the number of children aged five to seventeen from families receiving Aid to Families with Dependent Children (AFDC) of $2,000 or more per year is at least eight percent of the ADM. The amount of the supplement is based upon the percent of ADM receiving AFDC. If 8-14.9 percent of the ADM received AFDC, the supplement is 6 percent of the FEE ($153) per AFDC. If 15-19.9 percent of the ADM received AFDC, the supplement is 16 percent of the FEE ($408) per AFDC. If 20-29.9 percent of the ADM received AFDC, the supplement is 23 percent of the FEE ($587) per AFDC. If 30 percent or more of the ADM received AFDC, the supplement is 27 percent of the FEE ($689) per AFDC.

Economic Supplement on Account of Local Tax Effort and Population Per Square Mile. Any school district levying local taxes equal to or in excess of the statewide median tax effort, as measured by the state median equalized mills on market value qualified for this supplement. In addition any school district with 50 percent or more of its population residing in a city of the first through third class that levied and collected local taxes for municipal purposes in excess of the statewide median tax effort, as measured by the state municipal median equalized mills on market value qualified for this supplement. Qualifying districts received one, three, or five percent of their actual instruction expense depending on their population per square mile. Qualifying districts with a population per square mile of 5,950 or more persons and a student population in excess of 35,000 WADM received a supplement equal to 19 percent of their actual instruction expense.

Minimum Guarantee Allocation. No district received less than a two percent increase over the amount received in 1990-91 from the Base Subsidy on Account of Instruction plus the Economic Supplement on Account of Children in Low Income Families plus the Economic Supplement on Account of Tax Effort and Population Per Square Mile, plus the Minimum Guarantee Allocation.

Small District Assistance. Any school district with a MV/PI aid ratio of .5000 or greater and ADM of 1,500 or fewer or any school district that received small district assistance in 1990-91 qualified for this assistance in 1991-92. Qualifying districts with a population per square mile of 90 or greater received $170 per ADM; qualifying districts with a population per square mile of less than 90 received $190 per ADM.

Low Expenditure, Low Wealth Supplement. Any school district with an MV/PI aid ratio of .6000 or greater and an actual instruction expense per weighted average daily membership (AIE/WADM) less that the state median AIE/WADM ($3,261) qualified for this supplement. Qualifying districts received an amount equal to 1.3 percent of their AIE; however, the supplement is capped at the dollar amount necessary to raise the district AIE/WADM to $3,261.

Low Expenditure Poverty Supplement. Any school district with an AIE/WADM less than $3,445 and with ten percent or more of its ADM from low income families qualified for this supplement. Qualifying districts received an amount equal to 0.5 percent of their AIE.

Equity Supplement:

Poverty Component. Any district whose 1991 AFDC count as a percent of its 1990-91 ADM was equal to or greater than 35 percent and did not receive funds from the expenditure component qualified for this supplement. Qualifying districts received amounts equal to $100 times their 1992 AFDC count.

Foundation Guarantee. School districts with a level of local and state support less than $3,875 received funds to raise that level of support to $3,875. State support equaled the 1993-94 allocations for ESBE plus the expenditure component and poverty component of the Equity Supplement. The assumed local support was a dollar amount represented by 19.5 mills on the 1990 market value.

Growth Supplement. To qualify for this supplement, a school district's ADM between 1990-91 and 1991-92 must have increased by at least 4.5 percent or by at least 250 ADM. Qualifying districts received an amount equal to the increase in ADM between 1990-91 and 1992-93 multiplied by the district's MV/PI aid ratio multiplied by $400.

Limited Revenue Sources Supplement. To qualify for this supplement, a district's 1992-93 MV/PI aid ratio must be equal to or greater than .7000 and the districts must not qualify for any other funds from the Equity Supplement. Qualifying districts will receive an amount equal to $77.50 multiplied by the district's ADM.

Foundation Funding for Equity:

Poverty Component. If the proportion of the 1993 AFDC count as a percent of the school year 1993-94 ADM is less than 35 percent, the school district will receive $110 per AFDC count. If the proportion is equal to or greater than 35 percent, the school district will receive $120 per AFDC count.

Growth Component. School districts whose ADM increased between 1992-93 and 1993-94 by 4.5 percent or less will receive $225 times the ADM increase. School districts whose ADM increased more than 4.5 percent will receive $450 times the ADM increase.

Minimum Increase Component. Each school district will be provided additional funding, if necessary, so that the total increase provided by the Foundation Funding for Equity shall equal a minimum of one percent if the MV/PI aid ratio is less than or equal to .5000, 1.25 percent if the MV/PI aid ratio is greater than .5000 and less than or equal to .7000, and 1.5 percent if the MV/PI aid ratio is greater than .7000.

Aid Distribution Schedule: School districts are paid 15 percent of the estimated amount due on the fourth Thursday in August, October, December, February and April. Remaining amount due is paid on June 1.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $322.9 million.

Description: The state provides subsidies to school districts for the transportation of public and nonpublic school students. The subsidy is based on approved allowances for vehicle capacity, mileage traveled, utilized passenger capacity, excess driver hours in congested areas, and the type of service provided. An Approved Reimbursable Costs (ARC) is calculated by taking the sum of four components times a cost index that is based on the consumer price index (3.242 for 1993-94). The components of the ARC are calculated as follows:

Vehicle Allowance. The vehicle allowance for a bus with a capacity of 11 passengers or more is calculated by adding $540 to the product of an amount based on the age of the bus and the approved pupil capacity. The amounts based on age of the bus are $20 for 1-3 years, $18 for 4-6 years, $16 for 7-10 years, and $12 for 11 or more years. The allowance for a bus with capacity of ten or less is calculated by adding $360 to the same range of bus/pupil capacity products.

Mileage Allowance. The mileage allowance is calculated by taking the product of the approved daily mileage and the number of school days in service times 23 cents.

Utilized Passenger Capacity. The utilized passenger capacity is calculated by taking the greatest number of pupils in any run times the approved annual mileage times .0035.

Excess Driver Hours. The excess driver hours for driving in congested areas is the product of the approved hours and $3 per hour.

State Share: The state subsidy amount is the lesser of the ARC or the actual costs of transportation times the district's MV aid ratio. In addition, an Excess Cost Reimbursement limits the local share to one-half mill of the district's market value. If the ARC exceeds one-half mill on market value, the district receive this difference in addition to the regular reimbursement. Districts also receive an additional state subsidy of $159 per nonpublic pupil transported.

Local Share: The school district is responsible for costs not reimbursed by the state.

Extent of Participation: 498 school districts received this subsidy in 1993-94.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Debt Service

Funding in 1993-94: $184.0 million.

Description: The state provides subsidies to school districts for the construction, renovation, or purchase of school buildings on the basis of approved expenditures and percent equalization. State subsidies are based on the rated pupil capacity of the building as approved by the Department of Education.

The local fiscal capacity of the district is taken into account by use of the MV aid ratio or the capital account reimbursement fraction (CARF), whichever is higher. (The CARF was the fiscal capacity factor in effect for the 1955-56 school year and is based on the relative market value wealth for a teacher unit of 30 elementary or 22 secondary pupils.)

In order to qualify for state subsidy for the construction, renovation, or purchase of a school building, each school district must go through a substantial approval process called PLANCON. This process includes, but is not limited to, justification, site acquisition information, calculation of project costs, calculation of rated pupil capacity, and full documentation at each stage of the project's development.

State Share: Once all the approvals have been received, the state will participate in the funding of the project based on the maximum reimbursable amount calculated from the rated pupil capacity of the building and the district's MV aid ratio or CARF, whichever is higher.

The maximum reimbursable amount for new construction, purchase, or alterations to an elementary building is $3,900, a secondary building $5,100, and a vocational facility $6,300 times the rated pupil capacity. There are additional allowances for architect's fees, sanitary sewage disposal, and rough grading to receive the building.

Local Share: The school district is responsible for costs not reimbursed by the state.

Local Capital Project Financing

Bonding Procedure

School districts may finance capital projects through the State Public School Building Authority, General Obligations Bonds, or through local authorities. School districts generally engage a bond counsel to supervise the financing and to provide legal opinions as to the validity and tax-exempt nature of the bond issue. Districts also engage a financial advisor or investment banker (or both) to structure the bond issue, prepare The Official Statement, and to arrange for a bond rating. Application is then made to the Department of Community Affairs for approval to incur debt.

Necessary Voter Approval and State-Imposed Limits

Capital project financing is governed by the Local Government Unit Debt Act and Act 34 of 1973 (Section 7-701.1 of the Pennsylvania School Code).

The Debt Act provides that there is no debt limitation approved by electors. Non-electoral debt is limited, in the case of General Obligation Bonds, to an amount not to exceed 250 percent of its borrowing base, which is defined as the arithmetic average of the total revenues for the three full fiscal years preceding the incurrence of the debt. Authority debt is limited to 350 percent of the borrowing base.

The School Code requires a referendum in instances where the construction costs for a new building or a substantial addition; defined as more than 20 percent of the area and replacement value, exceeds a per pupil expenditure standard.

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993-94: $444.1 million.

Description: The Public School Employees Retirement System (PSERS) is administered by the PSERS board of directors made up of 15 members representing annuitants, the Governor, and the General Assembly. During 1993-94 the employer contribution rate was 13.17 percent of payroll. The employee contribution rate is 5.25 percent for employees hired prior to 1983 and 6.25 percent for employees hired after 1983.

State Share: The state provides one-half of the employer contribution (6.585 percent) directly to PSERS.

Local Share: School districts provide one-half of the employer contribution. Retirement expenditures are part of the district's General Fund Budget.

Extent of Participation: 500 districts received this subsidy in 1993-94.

Social Security

Funding in 1993-94: $270.4 million.

Description: The state has a subsidy for Social Security.

State Share: The state provides one-half of the employer contribution to the school district.

Local Share: School districts provide one-half of the employer contribution.

Extent of Participation: 500 districts received this subsidy in 1993-94.

VI. SPECIAL EDUCATION

Special Education

Funding in 1993-94: $632 million.

Description: The state provided subsidies to school districts, intermediate units, approved private schools, and charter schools for the deaf and blind for special education programs. The state provided $468.1 million to school districts using a formula that provided $1,025 time 15 percent of the school districts average daily membership (ADM) and $12,000 times 1 percent of its ADM; $11.1 million was set aside in a contingency fund to augment the formula subsidy by providing additional funding for extraordinary expenses incurred in meeting the educational needs of students with disabilities who require highly specialized education or related services in order receive an appropriate education. The state also provided $89.6 million to intermediate units to provide core services and to fund programs for institutionalized children; $57.2 million to approved private schools; $18.8 million to charter schools for the deaf and blind; and $5.8 million for other varied special education programs.

Local Share: The school districts provided funds for the cost of special education programs that exceeded the amounts provided by the state. In addition, the school districts were assessed a "tuition recovery" of $19.5 million for children in institutionalized children's programs, approved private schools, and charter schools.

Extent of Participation: 501 school districts, 29 intermediate units, 31 approved private schools and four charter schools received funding in 1993-94.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

Gifted education is funded as part of the special education subsidy.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education Subsidy

Funding in 1993-94: $40.3 million.

Description: The state distributed $29.4 million to school districts and AVTSs for secondary vocation education programs. A vocational average daily membership (VADM) is calculated as .17 times the ADM for school district-operated vocational education programs and .21 times the ADM for AVTS-operated vocational education programs. The subsidy equals the VADM times the lesser of the school district's actual instruction expense or its base earned for reimbursement times the greater of the school district's MV/PI aid ratio or .3750.

State Share: The state provides the funding described above to the school district or AVTS operating the vocational education program.

Local Share: The school district is responsible for costs not reimbursed by the state.

Extent of Participation: 402 school districts and 74 area vocational technical schools received this subsidy in 1993-94.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Funding in 1993-94: $73.15 million.

Description: The state provided funding of $56.3 million for services to nonpublic schools and $17.2 million for textbooks and supplies for nonpublic schools.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $50.7 million.

Description: The state provided funding to intermediate units and school districts for early intervention programs for handicapped children.

Extent of Participation: 28 intermediate units and 6 school districts.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

In 1992-93, school districts levied $4.8 billion in property-based taxes. Property assessments are not uniform. Each county sets its own assessment ratio and determines when there will be a reassessment. The ratio of assessed value to market value ranges from an average of 4.8 percent to 104.8 percent.

Pennsylvania has an independent state agency called the Pennsylvania State Tax Equalization Board. This agency is responsible for determining an aggregate market value of taxable real property using uniform procedures for all school districts. The fundamental procedures are based on statistical averages — "assessment-sales ratio" studies. The State Tax Equalization Board annually publishes a certification of market values by school district. These market values are used in the calculation of the market value aid ratio and the equalized mills for each school district.

Income Tax

An earned income tax is levied by 451 school districts. The amount levied in 1992-93 was $504.4 million. The tax is levied on the wages, salaries, commissions, net profits, or other compensation of persons subject to the jurisdiction of the taxing body. There is a one percent limit on this tax; however, where both school district and municipality levy the tax, the one percent limit must be shared on a 50/50 basis, unless otherwise agreed to by the taxing bodies. There is no limit on the earned income tax rate for Philadelphia School District; the limit for Pittsburgh School District is two percent. The Pennsylvania Department of Community Affairs prepares a "Register of Earned Income Taxes" that lists the school districts and municipalities levying the tax, the stated rate for the tax, taxes levied by coterminous jurisdictions, the effective tax rate, and the name and address of the tax officer responsible for collection of the earned income tax. Every employer having a factory, workshop, warehouse, or other place of business within the taxing jurisdiction is required to register with the earned income tax officer. All employers are mandated by law to deduct the earned income tax from their employees whenever an ordinance or resolution of a taxing jurisdiction is listed in the "Register of Earned Income Taxes."

Other Sources of Local Tax Revenue

Other local taxes in 1992-93 include occupation taxes ($107.1 million), business use and occupancy taxes ($90.8 million), real estate transfer taxes ($84.8 million), per-capita taxes ($37.0 million), business privilege taxes ($13.5 million), occupational privilege taxes ($12.6 million), mercantile taxes ($13.9 million), amusement taxes ($3.8 million), and various other local taxes ($35.3 million). Also for 1992-93, school districts reported $303.8 million of delinquent taxes.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

The real estate tax for second, third, and fourth class school districts is limited to 25 mills on assessed value. However, additional levy amounts are authorized to pay teacher and supervisory staff salaries, rentals due to school building authorities, and interest and principal on indebtedness. The effect of these additional levy authorizations provide essentially unlimited local property tax authority.

Spending Limits

The total amount of temporary indebtedness incurred for current expenses and debt service shall, at no time, exceed an amount equal to the state appropriations not received but payable during the fiscal year, and the tax levied upon property taxable for school purposes with such school district, and remaining uncollected and unpledged for the current fiscal year.

Voter Approval of Budgets and Bond Issues

School district budgets and bond issues are not subject to voter approval. School districts advertise and hold open hearings on the budget 30 days prior to adoption.

XV. EARMARKED STATE REVENUE

None.

XVI. SPECIAL TOPICS

None.

RHODE ISLAND

Celeste P. Bilotti
State Aid Specialist
Department of Education

I. GENERAL BACKGROUND

State

- General state aid, or operations aid, is the primary source of state support for elementary/secondary education and addresses expenditures for staffing, facilities, and public school pupils.
- Several one time allocations were funded in fiscal year 1994. These are the special education equity fund, the school improvement fund, the technology improvement fund, the distressed district fund, and the census transition fund. These funds totaled $18.9 million in FY 1994. *Only the distressed district fund was carried forward to FY 1995; a new program, the poverty fund, was established in FY 1995.*
- The operations aid program, established in 1960, has undergone several significant changes since 1991. This program is a percentage equalizing formula that compares wealth per student of a community to that of the state as a whole to generate the percent that the state will reimburse in a given district in a given year. In FY 1993, transportation costs were removed as a separate factor in the formula. Also, non-public school students are no longer used in calculating the reimbursement percent (allowed in the past when to do so would benefit the school district). Finally, in FY 1991 wealthy communities received a minimum reimbursement rate of 28 percent no matter what the actual percent was that resulted from calculating the formula. This minimum was lowered over the last few years to nine percent in FY 1994 (*and is eliminated in FY 1995 and thereafter.*)
- The average state reimbursement under operations aid increased during the late 1980s until a 50/50 state/local funding split was reached in FY 1991. While the formula is still designed to achieve 50/50 funding, the program was capped as a result of the state allocation process for the first time in FY 1992. State support for education dipped from the average 50/50 percent in 1991 to about 40 percent in FY 1992, but has gradually increased to about 45 percent of all local expenditures when state aid from a combination of all the programs is taken into consideration.
- These aid programs are presently under court challenge and have been declared unconstitutional at the Superior Court level. This decision has been appealed to the Rhode Island Supreme Court. A decision is expected sometime in 1995.

Local

- There are 37 fiscally dependent school districts in Rhode Island. Local funding for elementary and secondary education is raised as part of the local municipal tax levy. Local school districts have had varying success in increasing local support for education in the face of declining state aid. In general, the wealthier districts have been able to fill the gap left by the decline of state aid better than the poorer, urban districts.

Funding Summary, 1993-94

Total State Aid (All Programs)		$380 million
Grants in aid	350 million	
Teacher retirement contributions	30 million	
FICA	0	
Total Local School Tax Revenue		$555 million*
Property tax revenue	543 million	
Other local source tax revenue	12 million	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$935 million
State Financed Property Tax Credits Attributable to School Taxes	0	

* Unaudited FY 1994 data

II. THE BASIC SUPPORT PROGRAM

Operations Aid

Funding in 1993-94: $263.2 million (69.3% of total state school aid).

Nature of Program: Operations aid is a percentage equalizing formula.

Allocation Units: Pupils. The pupil factor is the daily membership of public school students in a community averaged over the 180 day school year. The count is used based on a two-year reference, i.e., FY 1994 aid is based on FY 1992 counts.

Local Fiscal Capacity: The local wealth factor is the equalized assessed valuation of a community adjusted for median family income.

How Formula Operates: The operations aid formula divides the wealth per pupil of a school district by the wealth per pupil of the state as a whole. This number is multiplied by 50 percent, which is the average statewide reimbursement. The result is then subtracted from one (the total) to yield the state "share ratio," which is the percent that the state will pay of a given school district's approved reimbursable expenditures in a given year. The share ratio times the district's expenses yield the operations aid entitlement. (Any regionalization bonus is added to the share ratio prior to multiplying the ratio times the expenses.)

The mathematical equation that represents operations aid in law reads as follows:

$$R = 1 \quad 0.5vM/(Vm)$$

where: R = state share ratio for the community in a given fiscal year

1 = the total, or the state plus the local share

0.5 = the average statewide percentage (50 percent) of local school expenses that are paid by the state

v = adjusted equalized weighted assessed valuation for the community, which is the district property value or wealth factor used in the formula

m = average daily membership of public school students in the community (radm), which is the district student count factor used in the formula

V = the sum of all the community adjusted equalized weighted valuations (EWAV), which is the state wealth factor used in the formula

M = total average daily membership of public school students in the state (RADM), which is the state student count factor used in the formula

State Share: The amount of aid or state share entitlement given to a community is determined by multiplying the "R" (or the share ratio that results from the formula above) times approved reimbursable expenditures (E) for the community for the reference year. The reference year is the two fiscal years' prior to the year in which the aid is paid. Audit adjustments are applied to these amounts, and each district's entitlement is ratably reduced if the program is not fully funded through the state budget process. In FY 1994, the program was funded at 70 percent of its full amount.

Local Share: The local share of education support is determined by the local budget setting process, which takes into consideration state aid revenues and setting of local property tax rates. (*A maintenance of effort clause was enacted in FY 95*).

Weighting Procedures: None

Adjustments for Special Factors: There are two special features of operations aid: a bonus for regionalized school districts and the targeting of four percent of each district's entitlement for literacy improvement activities. The regional bonus adds two percent to the share ratio for each grade in the region for the first two years of regional operation. The bonus declines by .25 percent per grade per year until an eight percent minimum bonus is achieved. There are no other special adjustments such as sparsity/density/school size, declining or growing enrollment, price level or municipal overburden. There are also no recapture provisions in the program.

Aid Distribution Schedule: Aid is distributed monthly, with 2.5 percent of the total distributed in July and August and 9.5 percent the remaining ten months.

Districts Off Formula: There wete five districts that received a minimum amount of aid in FY 1994, which totaled $2.0 million. There were no districts that did not receive aid or are in hold harmless situations.

III. TRANSPORTATION

There is no separate program for transportation in Rhode Island. All transportation costs are reimbursed under the general operations aid program.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Rhode Island has no program dealing with capital appropriations for local school district construction and/or renovation projects. There is, however, a program to reimburse local school district capital project debt service, which is described below.

Debt Service

Funding in 1993-94: $17.0 million (4.5% of total state school aid).

Description: School district capital projects supported by bonds must go through a needs test at the state level to qualify for aid. Once approved as necessary by the Board of Regents for Elementary and Secondary Education (and after completion), the state housing aid program will reimburse districts for the cost of the project and for bond interest based on a percentage determined by a percentage equalizing formula similar to that used in operations aid

(Note: the only difference is that housing aid uses a factor of .62 and not .50 because the average state share is 38 percent and not 50 percent in this program). There is a 30 percent minimum reimbursement in this program unlike operations aid, and a bonus for regional school districts of two percent per grade regionalized. Other features of the program:

- districts are compensated over the term of the bond issued in support of the project;
- while formula factors (i.e., student count and wealth) are on a two-year reference, projects are on a one-year reference, which means aid begins the fiscal year after a project is completed;
- the program includes a debt service adjustment for heavily burdened districts; however, districts have rarely qualified for this entitlement since aid on bond interest began in FY 1990; and
- there is an additional four percent bonus for regional districts that undertake renovation projects and a four percent bonus for any project for which 75 percent of the cost of that project is for a combination of asbestos abatement, handicap access, and/or energy conservation.

State Share: The state share is determined by calculating the percent that the state will pay in a given district in a given year or by the minimum 30 percent applied to: (1) project costs divided by the term of the bond; and (2) bond interest accrued and owed through June 30 of the previous fiscal year once the project is completed.

Local Share: The local share is the total debt service payments minus state aid.

Extent of Participation: Thirty-five (35) of 37 districts receive aid under this program.

Local Capital Project Financing

Each of the 39 municipalities in Rhode Island have locally determined procedures for capital project financing. Some of the larger cities have charters governing this process, but (in general) most communities require local voter approval. There are no state imposed limits on municipal bonded projects; however, most communities require enabling legislation passed by the General Assembly for bonded projects.

V. TEACHER RETIREMENT

Funding in 1993-94: $30.1 million (7.9% of total state school aid).

Description: The state teacher retirement system consists of contributions by teachers as employees and a shared contribution by the state and by local school districts as employers. The local share is funded as part of the regular school budget. The state share is paid directly to the state retirement system by the Department of Elementary and Secondary Education. The contribution rates are set annually by the retirement board. State law governs the state/local split in the employer contribution, which is 40 percent from the state and 60 percent by the local school district. The contribution rates for FY 1994 were: teachers 8.5 percent; local school district 9.26 percent; and the state 6.76 percent. (Note: in FY 1994 the local and state contribution rates for five communities were 8.21 percent and 6.06 percent respectively.) Districts are not allowed to have separate teacher retirement programs other than the state retirement system.

State Share: Rates are determined annually by the state retirement board.

Local Share: Rates are determined annually by the state retirement board.

Extent of Participation: All 37 districts had state teacher retirement contributions made on their behalf in FY 1994.

Social Security

While local school district FICA and other expenses are reimbursed under operations aid, there is no separate state aid program for social security.

VI. SPECIAL EDUCATION

Funding in 1993-94: $33.4 million (8.8% of total state school aid).

Description: The special education excess aid formula is not an equalizing formula, but is designed to support 100 percent of all the additional or excess costs incurred in educating special education students. The program: (1) calculates the average cost of educating students for each district; (2) calculates the per-pupil cost for educating special education students in ten special education program placements (and for transportation and support services); (3) subtracts out the average per pupil cost and assigns those expenses to be reimbursed in operations aid; and (4) allows as reimbursable expenses the additional or excess costs that fall within 110 percent of the state median cost in that program placement for that particular year. The program uses full time equivalents of special education students as the student count, and both student and cost data are based on a two-year reference.

State Share: Each district's full entitlement is calculated using the process described above, and ratably reduced if the program is not fully funded through the state budget process. In FY 1994, this program was funded at 50 percent of its full amount.

Local Share: The local share is total special education costs as determined through local budget procedures minus state revenues.

Extent of Participation: All 37 school districts receive special education excess aid.

VII. COMPENSATORY EDUCATION

There were no compensatory categorical state aid programs in FY 1994.

VIII. GIFTED AND TALENTED EDUCATION

There were no gifted and talented categorical aid programs in FY 1994. There was a small amount of money ($30,000) spent at the state level in support of professional development activities and other state level activities.

IX. BILINGUAL EDUCATION

Funding in 1993-1994: $0.99 million (less than 1.0% of total state aid).

Description: Rhode Island has a limited English proficiency (LEP) incentive state aid program. This program establishes a state per pupil LEP cost and provides incentive funding above that provided for these expenses in operations aid using the operations aid share ratio. In no instance is more than 100 percent of the cost of LEP services reimbursed in a combination of this program and operations aid. LEP incentive aid also uses a two-year reference for formula factors and expenses, and each district's entitlement is ratably reduced if the program is not fully funded through the state budget process.

State Share: Each district's full entitlement is calculated using the process described above, and ratably reduced if the program is not fully funded. In FY 1994, this program was funded at 23 percent of its full amount.

Local Share: The local share is total LEP costs as determined through local budget procedures minus state revenues.

Extent of Participation: Twenty-nine (29) of 37 districts receive limited English proficient incentive aid.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $7.4 million (1.9% of total state school aid).

Description: The vocational aid program supports 100 percent of the cost of vocational skill training at eight locally operated regional career and technical schools. The program uses a two-year reference for student counts and expenses, and calculates a per pupil vocational training cost at each center (the student count data are full-time equivalents). The per pupil for each center is multiplied by the full-time equivalent students sent to that center by each district to determine the district vocational aid entitlement.

State Share: The state share of vocational skill training costs are determined in each district based on the process described above. The program was fully funded in FY 1994.

Local Share: The local share of vocational costs are determined through local budget procedures minus state revenues.

Extent of Participation: Thirty-two of 37 districts received vocational education aid in FY 1994.

Conventional Public Housing Aid

Funding in 1993-94: $9.1 million (2.4% of total state school aid).

Description: This program is designed to provide aid to those districts that have students who reside in federal low-rent housing projects (conventional public housing) since these families do not pay taxes and contribute to the support of education. The average per-pupil cost is determined in each district, which is then multiplied by the operations aid share ratio. In FY 1991, an additional class of students in one community (those residing on property owned by the state Solid Waste Management Program) were added to this program. No district may receive more than 100 percent of the total per pupil cost in a combination of aid from this program and operations aid (this correction is made in the subsequent fiscal year). Also, beginning in FY 1992, this program must be fully funded by law. The program uses a two-year reference for student and cost data.

State Share: The state share is determined by the process described above, and the program was fully funded in FY 1994.

Local Share: The local share in support of these students is determined by the local budget process minus state aid revenue.

Extent of Participation: Nine of 37 districts received conventional public housing aid in FY 1994.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

General operations aid reimburses districts on all approved expenses including some for non-public school students: transportation, textbooks, and other services. Special education excess aid also reimburses services to non-public school students. There is no direct aid to non-public schools.

XII. EARLY CHILDHOOD EDUCATION

There is no categorical aid program for early childhood education. However, in FY 1994, there was approximately $500,000 in grant money awarded to approximately five districts in the area of early childhood education.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

Education is supported almost exclusively at the local level through the local property tax. The assessment system at the local level varies widely both in terms of assessment ratios and classification of property. The state equalizes the total dollar amount of property valued by the municipalities as of December 31 on a yearly basis for use in operations aid. This is done by the Department of Administration, which, looking at sales, samples and other data, equalizes the reported amounts to make them comparable on the state level. The amount (unaudited) of property taxes in support of education reported by the local school districts for FY 1994 is $543.7 million.

Income Tax

Local districts in Rhode Island are not allowed to collect an income tax or income tax surcharge.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Rhode Island has no tax and spending limits for school districts; however, such restrictions do exist for municipalities as a whole. For example, cities and towns may not exceed a 5.5 percent cap on increasing property tax rates without state approval.

Voter Approval of Budgets and Bond Issues

Local voters must approve school budgets unless this authority has been vested in city councils or (in the case of regional districts) specifically constituted finance committees.

In rural communities voting to approve school budgets normally occurs at town meetings; city councils and other committees will also vote at public meetings. Voting procedures for school bonds vary by community. The great majority of school budgets pass on first attempts, and there is no limit on the number of times a district may seek voter approval. In fact, districts sometimes amend requests to voters if state revenue projections differ from those used in initial budget approval requests. Districts that cannot agree with municipalities on budgets must seek recourse by appealing to the Commissioner of Education.

XV. EARMARKED STATE REVENUE

None.

XVI. SPECIAL TOPICS

None.

SOUTH CAROLINA

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Additional Information Provided by the
South Carolina Department of Education

I. GENERAL BACKGROUND

State

- The Education Finance Act of 1977 (Act 163) developed a weighting system designed to equitably distribute funds among districts based on school district wealth and student need. Moreover, the EFA, working in conjunction with Act 208 of 1975, which established uniform property classifications and assessment rates, requires each school district to levy the same millage for its local required share of the foundation program (GPA, Inc., 1993). The EFA provides that 70 percent of the statewide cost of the Defined Minimum Program be paid by the state and 30 percent collectively by the local school districts, with individual school district percentages varying based upon wealth. The percentage of state support for individual school districts varies between zero and 91 percent (Financing Education, 1994).

- *Equity of Per Pupil Expenditures.* The EFA brought about and continues to maintain high equity in public school financing. Computing elasticities between total revenues per pupil and real property valuations per pupil, Cohn and Smith (1989) reported the wealth elasticity declined from 0.28 in 1976-77 to 0.09 in 1985-86. Similarly, high equity exists in South Carolina's current operating expenditures for K-12 education, as measured by the following elasticities between expenditures per pupil and wealth per pupil (Garris, 1994).

Fiscal Year	*Elasticity*
1985-86	0.0627
1986-87	0.0845
1987-88	0.0685
1988-89	0.0754
1989-90	0.0779
1990-91	0.0859

The elasticity indicates how responsive changes in expenditures per pupil are to changes in wealth per pupil. The elasticities listed above indicate high equity in South Carolina's per pupil expenditures since each one percent change in wealth per pupil would generate less than a one-tenth percent change in expenditures per pupil. Equity in per pupil expenditures among South Carolina's school districts in the lower half of the distribution is also high, as shown below (Garris, 1994).

Fiscal Year	*McLoone Index*
1985-86	0.9417
1986-87	0.9454
1987-88	0.9497
1988-89	0.9346
1989-90	0.9447
1990-91	0.9564

The McLoone index examines the relationship among all observations below the median expenditures per pupil and denotes full equity as the index approaches unity (1.0). The McLoone index for South Carolina's per pupil expenditures increased from 0.9417 in 1986 to 0.9564 in 1991, with all years listed approaching unity.

- *Public School Funding Litigation.* Despite the high level of equity in pupil expenditures brought about and maintained by the EFA, public perception suggests there is low equity, this viewpoint being particularly strong among poorer school districts. The constitutionality of the EFA was first challenged in 1988, but the South Carolina State Supreme Court ruled the EFA did not violate the state constitutional requirement that the legislature provide for the maintenance and support of a system of free public education (*Richland County* v. *Campbell*, 1988). In spite of the *Richland* v. *Campbell* decision, 41 school districts have joined in a lawsuit alleging that South Carolina's school funding system is unconstitutional and does not provide adequate funding for the basic program (*Abbeville County School District, Et Al.* v. *State of South Carolina, Et Al.*, 1993). The state has countered that the funding system is equitable and has asked the court to dismiss the lawsuit on the basis of the decision in the earlier suit. The litigation should be resolved in 1995.

- *Inequity in Tax Effort.* The school funding equity litigation in South Carolina is being driven by an increasing burden on local sources of revenue to pay for K-12 education. This is evidenced by the fact that the state share of state and local revenues for education was 51.39 percent in 1993-94, exhibiting a downward trend when compared to a state share of 58 percent in 1983-84 and 55.16 in 1988-89. Over this time period, the local share of state and local revenue increased from 42 percent in 1983-84 to 48.61 percent in 1993-94, depicting an upward trend in local support (Annual Financial Reports, 1985, 1990, 1995). Moreover, millage levied by local school districts in 1992-93 for current operating expenditures varied between 53 and 174 mills; local tax effort ranged from 61 to 188 percent.

- *Proposed Legislative Reforms.* Litigation is not the only result of an increasing burden on local property tax payers to pay for public education. A bill introduced in the South Carolina General Assembly in 1994, before being sent back to a joint legislative *ad hoc* committee, would have rolled back property taxes for public education operating expenditures to homeowners (House Bill, H.4633, 1994). A joint ad hoc committee of the General Assembly proposed a similar elimination of property taxes for school purposes in the 1995 legislative session, which would levy an additional one percent sales tax, change sales tax exemptions, and require spending cuts (Ad Hoc Committee, 1995). Senate Bill 521, 1995, if passed, would eliminate residential property tax for all operating purposes (excludes capital outlay) and also phases-in over a five year period up to $180 million per year to address the school funding equity issue. House Bill 3651, 1995, if passed would also eliminate property tax on residential propoerty, but requires the tax relief to be phased in over a four-year period. Several taxpayer groups, bolstered by South Carolina's Secretary of State, have also offered a plan to eliminate property taxes for school purposes by dedicating revenue growth and spending cuts over a three-year period (South Carolina Taxpayers, 1995). The State Superintendent of Education has also proposed a plan for meeting the National Goals, which would fundamentally change South Carolina's system of funding public education. Almost all state aid would be rolled into the proposed funding program to be allocated to school districts on an equalized basis (South Carolina Education Goals Panel, 1995). The recommended "adequate" student-based cost (total foundation program divided by adm) for 1995-96 is $3,889 (South Carolina Department of Education, 1995).

- *Other Legislative Innovations.* South Carolina is widely recognized for its legislative driven reform efforts beginning in the 1980s. Many of these reforms were directly related to school finance policy. in 1984, the state passed one of the most comprehensive reform packages in the United States, the Education Improvement Act (EIA). Though not specifically a school finance measure, EIA had a significant impact on school finance. Most directly, EIA provided for additional state funds for education through an increase in the state sales tax of one percent (from 4 percent to 5 percent). In addition, to protect against districts reducing any amount of their financial effort due to increased state expenditures, EIA required each district to increase its local tax revenue effort on a per-pupil basis by not less than the annual inflation rate. Each district also had to maintain the local salary supplement above the required state minimum paid to certified employees (The South Carolina State Department of Education, 1994).

The reforms mandated by EIA made major revisions in the system of education in the state. According to former Governor and current U.S. Secretary of Education Richard Riley, the EIA was designed, "to provide an opportunity for and a challenge to our children and youth to reach for excellence" (The South Carolina Assistance Project, 1985, p 1). The Act had seven major components or subdivisions, each with an array of programs and mandates, which affected the operation of schools:

1. raise student performance by increasing academic standards;
2. strengthen the teaching and testing of basic skills;
3. elevate the teaching profession;
4. improve leadership, management, and fiscal efficiency;
5. implement quality controls and reward productivity;
6. create more effective partnerships among schools, parents, community, and business; and
7. provide school buildings conducive to improved student learning.

Overall, the EIA had a major positive impact on the schools of South Carolina, in terms of public support, funding, and educational attainment in many areas. Indeed, Timar and Kirp (1989) established the EIA as the ideal form for school reform legislation, because it "demonstrates the need for balance between state accountability and local autonomy...[and] it shows that authority and responsibility must be distributed across the entire system of education" (p. 509). However, specific participants in schools, most notably teachers, questioned certain aspects of the reform (Ginsberg and Berry, 1990). The need for ongoing alterations of the reform initiative in the state was addressed by the legislature in 1989 with the passage of "Target 2000 — School Reform for the Next Decade."

Target 2000 created new programs to guide education through the decade of the 1990s. Although no specific new moneys were appropriated under this law, the intent of the legislature was that money would be drawn from the general appropriation or EIA funds. Several components of Target 2000 were priorities for funding by the state legislature. These included dropout prevention programs, work on higher order thinking skills, schoolwide innovation grants, and a school deregulation-flexibility program.

Legislative efforts at school reform continued in 1993 with passage of The Early Childhood Development and Academic Assistance Act (Act 135). Act 135 involves a planning process and development of a five-year plan to be updated annually. According to the State Department of Education, Act 135, "offers the opportunity to focus on a planning process that will result in a renewal of schools and districts" (The South Carolina State Department of Education, 1994, p. 5). Two purposes underlie the focus of the law. The first is the early childhood initiative for students pre-school through grade three, aimed at prevention and geared towards getting youngsters off to a good start in school. The second is providing academic assistance for students in all grades (alternatives to year-long and pull-out remediation), focusing on individual needs and learning styles to get students to graduate with their peers. Under Act 135, there will be no identifiable remedial or compensatory students. All allowable costs (based on a weighting for early childhood assistance and academic assistance) will consist of general instructional expenditures in K-3, or 4-12 grade spans.

Local

- In addition to 91 public school districts, which oversee 630 elementary and 469 secondary schools, South Carolina has two special purpose districts. The Youth Services School District allows delinquent youth to continue receiving education, while receiving rehabilitation services. The Corrections Department provides an education program to inmates.
- South Carolina's school districts primarily receive local revenue from property taxes. Twenty of South Carolina's public school districts have either direct or indirect total fiscal authority to set tax rates for school purposes. Another 37 school districts have limited fiscal authority, while the remaining 34 school districts have no fiscal authority or are limited to a maximum level of taxation.

Funding Summary, 1993-94[1]

Total State School Aid (All Programs)		$1,434 million
Grants in aid	1,149 million	
Teacher retirement contributions	285 million	
FICA	Included in teacher retirement	
Total Local Tax Revenue		$1,416 million
Property tax revenue		
Other local source tax revenue		
Local source non-tax revenue		
Total Combined State and Local School Revenue		$2,850 million
State Financed Property Tax Credits Attributable to School Taxes	0	

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[1] The amounts shown in the funding summary are estimated based on information provided by the authors and the South Carolina Department of Education.

II. THE BASIC SUPPORT PROGRAM

Education Finance Act of 1977 (Act 163)

Funding in 1993-94: $850.1 million (59.3% of total state school aid).

Nature of Program: Foundation. The basic support program in South Carolina is a foundation program.

Allocation Units: Pupils. Pupils in weighted average daily membership.

Local Fiscal Capacity: Equalized assessed property valuation is used to allocate funding under the basic formula. Each district has an index of taxpaying ability, which is its relative fiscal capacity compared to that of all other districts of the state, based on the full market value of all taxable property in the district.

How Formula Operates: The aim of the Education Finance Act is to provide every public school student an equal educational opportunity in terms of financial support, while setting a uniform balance of fiscal responsibility between the state (70%) and the districts (30%). The General Assembly annually sets the base student cost (BSC) as the funding level required to provide the minimum education program to the most economically educated pupil. The 1993-94 BSC is $1,581. Each district must maintain records of the 135-day average daily membership (ADM) for each of the 14 classifications of students given cost factors, or weightings, to impact on a district's costs and state aid.

The Allocation Formula:

$$\text{State Aid} = (\text{DWADM} \times \text{BSC}) - (\text{SWADM} \times \text{BSC} \times \text{Index} \times .3)$$

where:

DW = District Weighted
SW = Statewide Weighted
ADM = Average Daily Membership
BSC = Base Student Cost
Index = School District Index of Taxpaying Ability

State Share: The amount of aid the state provides is the difference between the total cost for the district to provide the foundation program minus the district's required local support.

Local Share: The amount of local support the district is required to provide is determined by computing the total statewide collective local share (approximately 30 percent) of the cost of the foundation program multiplied by the district's index of taxpaying ability.

To qualify for its state appropriations, each district must spend 85 percent of the state aid in direct and indirect aid to the specific program or classification for which it qualified for aid. Further, each district is required to pay each certified teacher or administrator an annual salary in accordance with the statewide Minimum Salary Schedule.

Weighting Procedures:

Classification	*Weight*
Kindergarten	1.30
Primary	1.24
Elementary	1.00
High School	1.25
Educable Mentally Handicapped	1.74
Learning Disabilities	1.74
Trainable Mentally Handicapped	2.04
Emotionally Handicapped	2.04
Orthopedically handicapped	2.04
Visually Handicapped	2.57
Hearing Handicapped	2.57
Speech Handicapped	1.90
Homebound	2.10
Vocational (3 levels)	1.29

Kindergarten is reduced to .65 for funding, since the state will fund only a half-day program.

Adjustments for Special Factors: South Carolina's basic support system does not include any other adjustments for special factors, like school size, changing enrollment, price level, or municipal overburden. Nor is a recapture provision included in the basic formula.

Districts Off Formula: York School District 2 receives no state aid under the basic support system. Therefore, the index of taxpaying ability is adjusted for each school district to exclude York 2.

III. TRANSPORTATION

Funding in 1993-94:	$56 million
Aid to School Districts	$27.5 million (2.0% of total state school aid).
Other State Support	$28.5 million

State Level Salaries	$9,573,810
State Level Operating Expenses	12,096,039
State Level Additional Bus Supplies	4,718,281
Nonrecurring Buses/Other Vehicles	2,000,000
Allocations to School Districts	30,000
Aid School Dist-Bus Driver's Salary	26,015,896
Aid School Dist-Contract Drivers	398,383
Aid School Dist-Bus Driver Aides	161,322
Aid School Dist-EIA Bus Driver Salary	897,343
Aid to Other State Agencies	103,766

Description: Public school transportation in South Carolina is a shared responsibility of the State Department of Education and the state's 91 school districts. The State Department of Education is responsible for the overall supervision of the school transportation program, including acquisition of school busses, maintenance of the school bus fleet, training of bus drivers, approval of routing, safety inspections, and all operational costs, with the exception of field trips, district supplements to bus driver salaries, bonuses for drivers, salaries for district transportation employees, and cost of facilities. School districts are solely responsible for the daily operations of the transportation program. Each district is responsible for the selection of school bus drivers/assistants, employment and dismissal of school bus drivers/assistants, supervision of school bus drivers/assistants and the pupils being transported, proposed routing of buses, accurate transportation records as to mileage and number transported, driver's time reports, school bus safety and enforcing all other transportation regulations (Department of Education, 1985). The coordinated effort between the State and the school districts is essential to a safe, efficient, economical transportation program.

State Share: Transportation costs for South Carolina's public schools were not included in the basic funding program in 1977 because the state paid 100 percent of the cost. In 1987, the U.S. Department of Labor required the state to begin using all adult school bus drivers, instead of student drivers. This mandate caused school bus driver costs to escalate and the state, unable to absorb the increased costs, passed much of the increases on to local school districts.

Local Share: Total transportation costs were approximately $52 million in 1993-94. Local school district revenue defrayed about $24.5 million of these costs.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

State School Building Fund

Funding in 1993-94: $15.4 million (1.1% of total state school aid).

Funds are allocated based on a per-pupil allocation of $30 per student in grades 1-12 and $15 per Kindergarten student. Funds are received by school districts for the following purposes: (1) capital improvements as defined in Section 59-21-310 of the South Carolina Code of Laws, and (2) retiring of debt principal, interest, and related fees. All 91 school districts receive state school building aid.

Construction and Debt Service

South Carolina's 91 school districts spent $198 million for facilities acquisition and construction and $231 million for debt service in 1993-94. Receiving only $14.7 million in state aid, the school districts collectively expended $414.3 million for capital outlay and debt service. School districts may sell bonds up to eight percent of the district's assessed valuation, and more if the district taxpayers approve the proposed capital expenditure in a bond referendum. Debt service millage ranged from zero to 92.8 among South Carolina's 91 school districts (Rankings, 1994).

Construction	$198,264,183
Debt Service — Principal	149,379,991
Debt Service — Interest	79,662,031
Other Objects	2,424,278

V. TEACHER RETIREMENT

Funding in 1993-94: $284.9 million (19.9% of total state school aid).

State Employer Contributions	$235,139,796
Hold Harmless	8,100,000
Retiree Insurance	27,640,552
EIA Employer Contributions	14,003,692

Description: State employer contributions funds are allocated to school districts to help cover the employer portion of state retirement, group life insurance, social security, and health insurance for public school employees. State aid is not separated by retirement, group life insurance, social security, and health benefits, rather it is a lump sum to cover all of these fringe benefits. The state began providing state aid for school district retirees in a separate allocation in 1990-91.

Fringe benefits for South Carolina's public schools were not included in the basic funding program in 1977 because the state paid 100 percent of the cost. The South Carolina General Assembly capped the amount of fringe benefits aid the state would provide in 1982, consequently requiring local school districts to pay an estimated 69 percent of fringe benefit cost in 1994, or approximately $123.9 million (South Carolina Department of Education, Financing Education, 1994). For 1993-94, school district allocations were based on the average of the amount each district would receive under the EFA formula and the amount each district would receive based on percentage of weighted pupils. State aid of $8.1 million was provided to hold the losing school districts harmless. Beginning in 1994-95 and becoming completely phased in by 1998-99, state aid for employer contributions will be allocated to school districts under the EFA formula (Appropriations Act, 1994).

VI. SPECIAL EDUCATION

Special Education is funded through the EFA basic support system. The number of pupils in each classification (average daily membership) is increased by pupil weightings for each handicapping condition. The weighted pupils in each classification are multiplied by the base student cost to determine each school district's allocation. The handicap classifications and weightings are listed above in Section II.

Early Intervention for Preschool-Age Handicapped Children

Funding in 1993-94: $1.3 million (less than 1.0% of total state school aid).

Description: Preschool handicapped children ages 3-5 receive services from four different delivery models: speech, itinerant, self-contained, and homebased instruction. The average allocation per child is $125 for speech and $900 for the other models. The funds are allocated based on each district's index of taxpaying ability.

Handicapped Student Services (Trainable & Profoundly)

Funding in 1993-94: $3.4 million (less than 1.0% of total state school aid).

Description: These funds are available for direct services to trainable and profoundly mentally handicapped pupils. The district allocation is for its proportion of the state trainable and profoundly mentally handicapped students, as a percent of the funds available.

VII. COMPENSATORY EDUCATION

Basic Skills-Compensatory, Remedial, and Reading Recovery

Funding in 1993-94: $65 million (4.5% of total state school aid).

Description: Provisions in Act 135 of 1993 supersede the law and regulations governing compensatory and remedial programs. For fiscal year 1993-94, funds were allocated to school districts based on the same percentage of funds received for compensatory and remedial programs in 1992-93. Beginning in 1994-95, basic skills-compensatory and remedial instruction components will be replaced by the Early Childhood Development component of Act 135 for four year olds and grades K-3 and the Academic Assistance component for grades 4-12. Funding for K-3 will be based upon the number of students eligible for the federal free and reduced lunch program at a weight of .26 of the base student cost, subject to available funds. Funding for grades 4-12 will be based equally on (1) the district's percentage of K-3 free and reduced multiplied by the 4-12 average daily membership and (2) the district's four-year average for the number of students "not meeting" standard on the state's testing program for the years 1990-1993, subject to available funds. Under Act 135, there will be no identifiable remedial or compensatory students. All allowable costs will consist of general expenditures in grades K-3 or 4-12.

Gifted and Talented Academic

Funding in 1993-94: $19.3 million (1.3% of total state school aid).

Description: Funds are provided to districts for programs to provide academic programs for gifted and talented students in grades 3-12. Gifted or talented students identified as possessing demonstrated or potential abilities for high performance in academic areas are in need of services or programs outside the purview of the regular school program. Where funds are insufficient to serve all students, the district may determine which students shall be served.

Gifted and Talented Artistic

Funding in 1993-94: $2.1 million (less than 1.0% of total state school aid).

Description: Funds are provided to districts for programs to provide artistic programs for gifted and talented students in grades 3-12. Gifted or talented students identified as possessing demonstrated or potential abilities for high performance in artistic areas are in need of services or programs outside the purview of the regular school program. Where funds are insufficient to serve all students, the district may determine which students shall be served.

Advanced Placement Courses

Funding in 1993-94: $2.8 million (less than 1.0% of total state school aid).

Description: Each school district is required to provide advanced placement courses in all secondary schools that enroll an adequate number of academically talented students; schools whose student population cannot support such a program must provide at least one AP course through a cooperative agreement with other schools in the district, with another school district, or through independent study. Students successfully completing the Advanced Placement requirements receive credit in postsecondary public colleges in South Carolina.

IX. BILINGUAL EDUCATION

South Carolina does not provide categorical aid for bilingual education.

X. OTHER CATEGORICAL PROGRAMS

Administrator Apprenticeships

Funding in 1993-94: $743,000 (less than 1.0% of total state school aid).

Description: The State Board of Education has established guidelines for selected school districts to implement programs whereby persons who demonstrate outstanding potential as principals may be given the opportunity to serve as an apprentice to a principal in the selected district. Funds are allocated to school districts subject to the review of applicants and district applications. District applications must conform to the State Department of Education Guidelines.

Adult Education

Funding in 1993-94: $5.7 million (less than 1.0% of total state school aid).

Description: Funds are available to adult education programs in local school districts to provide academic services to adults who want a basic education, to prepare for the Tests of General Educational Development, to develop skills, or to complete the requirements of a high school diploma. Funds must be spent according to the Office of Community Education financial formula, limiting the allowable expenses of salaries, materials, and other costs. Funds are allocated on a per-student basis as equal proportions of $2 million.

Adult Education Remedial

Funding in 1993-94: $1 million (less than 1.0% of total state school aid).

Description: Remedial adult education is restricted to materials, equipment and supplies that are related to reading, writing, and math instruction. Funds are allocated based on the number of Adult Education remedial students multiplied by the base student cost multiplied by a weighting of .114.

Arts in Education

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: Competitive planning and implementation grants are available to support efforts to develop arts curricula at the school or district-level. The intent of the program is to promote the development of curricula in all four of the art areas (visual arts, music, dance, and drama). Funds are restricted to (1) plan, develop, and implement discipline-based arts education curricula; (2) provide teacher in-service training programs for arts specialists; and (3) hire certified arts specialists or contract with professional artists approved by the South Carolina Arts Commission.

Assist Teachers with Paperwork-Equipment

Funding in 1993-94: $232,000 (less than 1.0% of total state school aid).

Description: School districts are reimbursed for actual equipment costs within limitations established by the State Department of Education Data Center.

Assist Teachers with Paperwork-Pathways Coordinator Salary

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: Each district receives $13,419 to pay a salary and fringe benefits to a Pathways Coordinator to assist teachers with paperwork.

Attendance Supervisor's Salary

Funding in 1993-94: $538,000 (less than 1.0% of total state school aid).

Description: Funds are provided for the payment of the salary of one school attendance supervisor for each county at a fixed rate per year. In multidistrict counties, the salary is proportionately distributed among the school districts of the county on the basis of the prior year's 135-Day ADM.

Campus Incentive Program Bonus

Funding in 1993-94: $11.4 million (less than 1.0% of total state school aid).

Description: Funding for a one-time bonus for classroom teachers in 1993-94. School district allocations are based on full time equivalent teachers who are eligible for the bonus.

Competitive Teacher Grants

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: School teachers apply for competitive grants for the purpose of improving teaching practices and procedures. Funds are allocated on a competitive basis subject to a maximum of $2,000 per grant.

Continuous Improvement-Innovation

Funding in 1993-94: $2.8 million (less than 1.0% of total state school aid).

Description: Funds are allocated to school districts on a 50 percent average daily membership and 50 percent Education Finance Act formula basis. Seventy percent of the funds must be allocated by the district on a school basis in accordance with the District-School Improvement Plan. Up to 30 percent of the funds may be spent for districtwide projects with services to schools.

Critical Teaching Needs

Funding in 1993-94: $700,000 (less than 1.0% of total state school aid).

Description: Funds are allocated to districts to improve mathematics, science, reading, and computer instruction at the elementary, middle, and secondary levels. Districts may conduct courses for certificate renewal or may contract with colleges to offer the prescribed courses. The maximum allowable charges are: 1) tuition or salaries and fringe benefits cannot exceed $3,600 per course; and 2) books and materials cannot exceed $150 per participant.

Day Care Centers

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: Competitive guidelines allow school districts to compete for funds to establish day care centers and provide instructional support through center based programs.

Dropout Prevention

Funding in 1993-94: $3.6 million (less than 1.0% of total state school aid).

Description: Act 135 requires the Department of Education to fund an adequate number of the Target 2000 Dropout Prevention and Retrieval projects for years 1993-94 and 1994-95 to serve as technical sites for other schools and districts. Twenty-one sites receive funding. In providing technical assistance, project site personnel provide information on project activities, disseminate materials, and provide assistance in developing and implementing similar projects.

Effective Partnerships

Funding in 1993-94: $156,000 (less than 1.0% of total state school aid).

Description: These funds provide parenting classes at local schools to help parents better understand child growth and development and to increase their proficiency in parenting skills. Funds are distributed to districts according to each district's share of the statewide second preceding year ADM.

High School Exit Exam

Funding in 1993-94: $5,000 (less than 1.0% of total state school aid).

Description: Funds are allocated to school districts based on reimbursement of substitute teacher pay for those teachers serving on the Exit Exam Advisory Committees.

Higher Order Thinking Skills

Funding in 1993-94: $1 million (less than 1.0% of total state school aid).

Description: The State Department of Education administers in-service training programs for teachers and staff in higher order thinking and problem solving as part of the existing curriculum. Each school district is required to implement teacher in-service training in higher order thinking and problem solving to train all teachers and staff within five years. Funds are distributed to districts according to each district's share of the statewide second preceding year ADM.

Increase High School Diploma Requirements

Funding in 1993-94: $5.3 million (less than 1.0% of total state school aid).

Description: This program increased requirements for a high school diploma from 18 units to 20 units (one additional unit each for science and math). Students are also now required to pass four academic courses for interscholastic activities eligibility. The Board of Education also decreased allowable student absences and increased the instructional day to at least six hours excluding lunch for secondary students and at least six hours including lunch for elementary students. The State reimburses some of the costs of the salaries and corresponding employee benefits for teachers who must be hired to fulfill the new objectives. District allocations are determined by dividing the district's second preceding year 135-day ADM by the State's second preceding year 135-day ADM multiplied by the funds available.

Nursing Program

Funding in 1993-94: $611,000 (less than 1.0% of total state school aid).

Description: Funds are allocated to school districts based on a pre-approved grant through the Office of Occupational Education to fund a portion of a 12-month or Phase II licensed practical nurse program. The funds must be used for salaries and fringe benefits.

Professional Development

Funding in 1993-94: $1.4 million (less than 1.0% of total state school aid).

Description: Funding for in-service training programs for teachers that are used for the following strategies:

1. To implement one or more of the State Department of Education approved teacher in-service programs;
2. To conduct staff in-service activities based on the research of effective classrooms and effective schools;
3. To support district plans that prepare and train administrators and teachers in teaching techniques needed to implement the district and school plan as outlined in Act 135.

District allocations are determined by dividing the district's second preceding year 135-day ADM by the State's second preceding year 135-day ADM multiplied by the funds available.

Principal's Salary & Fringe Increase

Funding in 1993-94: $2.6 million (less than 1.0% of total state school aid).

Description: Funds are allocated to school districts to supplement their salary expenditures for school principals and assistant principals, including related employee benefits. Funds are distributed to districts according to each district's share of the statewide second preceding year ADM.

School Incentive Reward Program

Funding in 1993-94: $5 million (less than 1.0% of total state school aid).

Description: This program provides incentives to schools, area vocational centers, and districts that demonstrate exceptional performance and meet achievement gain criteria. Funds are distributed on a per-pupil basis and may be used to implement improvement in the instructional program and in areas of need identified in the School Improvement Plan. At the end of the funding period, unexpended funds must revert back to the State Department of Education.

School Innovation

Funding in 1993-94: $527,000 (less than 1.0% of total state school aid).

Description: These are competitive planning and implementation grants established to encourage the implementation of innovative and comprehensive approaches for improving student development, performance, and attendance. Planning grants are limited to $5,000; implementation grants are limited to $90,000 for a three-year period.

School Lunch Program Aid

Funding in 1993-94: $418,000 (less than 1.0% of total state school aid).

Description: Travel expenses of the lunch supervisor are paid from this appropriation. Funds are allocated based on the number of cafeteria units operating in each school district in the prior school year.

School Lunch Supervisor's Salary

Funding in 1993-94: $538,000 (less than 1.0% of total state school aid).

Description: Funds are provided for the payment of the salary of one school lunch supervisor for each county at a fixed rate per year. In multidistrict counties, the salary is proportionately distributed among the school districts of the county on the basis of the prior year's 135-Day ADM.

Teacher Salary Increase

Funding in 1993-94: $82.4 million (5.8% of total state school aid).

Description: Final school district allocations are based on the current year Professional Certified Staff Listing as of the 135th day of school. Eligibility for staff members is determined by each member's BEDS position code, instructional FTE, and term of employment for the first 135 days of school. Entitlement for each full-time eligible certified staff member is calculated by multiplying the prior year EFA base salary of the state minimum salary schedule determined by the member's education and class salary times .08144.

Tuition Reimbursement for Teachers

Funding in 1993-94: $910,000 (less than 1.0% of total state school aid).

Description: All school district and state agency school employees required to hold State Board of Education certification are eligible for tuition reimbursement. Eligibility is limited to every other year for courses taken in their area of specialization at a South Carolina public or private college. Funds are allocated to school districts based on the actual tuition paid by eligible district employees at a rate consistent with that charged at public colleges and universities.

Twelve Month Agriculture Program

Funding in 1993-94: $484,000 (less than 1.0% of total state school aid).

Description: Funds are available to school districts on a pre-approved grant basis through the Office of Occupational Education to fund the additional cost to eligible school districts for placing vocational agricultural teachers on a 12-month contract. The funds must be used for salaries and fringe benefits.

Twelve Schools Project

Funding in 1993-94: $222,000 (less than 1.0% of total state school aid).

Description: Funds a site-based state project to develop and pilot student performance assessments based on the *Curriculum Frameworks*, national standards, or best practices, in the areas of language arts, mathematics, science, or an interdisciplinary area incorporating a combination of any of these areas.

Vocational Education Equipment

Funding in 1993-94: $8.1 million (less than 1.0% of total state school aid).

Description: School district allocation for vocational education equipment are determined on a formula basis by the Office of Occupational Education. Applications for equipment are submitted by local school districts. The highest priority in funding is for job preparatory and occupational proficiency programs.

XI. STATE AID TO PRIVATE K-12 SCHOOLS

Information not available.

XII. EARLY CHILDHOOD EDUCATION

Early Childhood Program

Funding in 1993-94: $15.7 million (1.1% of total state school aid).

Description: Each school district is required to develop and implement at least one half day early childhood program for four-year-olds who have indicated significant readiness deficiencies. School districts may contract with appropriate groups or agencies to provide part or all of the programs. These programs must be developed in consultation with the Interagency Coordinating Council on Early Childhood Development and Education. The district allocation is based on the number of students served as reported on the Student Accountability System 135-Day School Report multiplied by the rate per student.

Family Literacy

Funding in 1993-94: $5.1 million (less than 1.0% of total state school aid).

Description: Each school district or consortium of school districts serving more than 2,000 pupils K-12 will be funded on a base amount of no less than $40,000 to establish a parenting/family literacy program, with any additional funds distributed based upon percentage of free and reduced eligible students in grades 1-3 in the state. Districts or consortia are required to provide or coordinate services in the following areas:

1. Parenting education for parents or guardians of children aged 0-5;
2. Support of parents of children aged 0-5 in their role as their preschool children's first and most important teachers;
3. Intensive efforts to recruit, and priority in serving, parents or guardians whose children, aged 0-5, are considered at risk for school failure;
4. Developmental screening for children, aged 0-5, in the program;
5. Opportunities for parents of children ages 0-5 in the program to improve their education if they do not possess a high school diploma or equivalent certificate.

Parent Education

Funding in 1993-94: $1.4 million (less than 1.0 percent of total state school aid).

Description: Each former Target 2000 Parent Education program designated as a Parenting/Family Literacy Technical Assistance Site received funding at the 1992-93 funding level. Parent Education programs recognize that significant and rapid learning occurs before a child enters school at age five or six. Since parents and guardians are the most important educational force for the young child during the preschool years, parenting/family literacy programs provide training and support services, which enable parents to enhance their child's development in these critical years.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Property tax is the primary source of local revenue available to school districts. School districts levy millage for current operating expenses and capital outlay against the assessed valuation of property in the district. The assessed valuation of property ranges from 4 percent to 10.5 percent of real value based on the type of property, as depicted in the following chart (Tax Commission, 1993).

Category of Property	*Assessment*
Primary Residence	4.0 percent
Agricultural (private)	4.0 percent
Agricultural (corporate)	6.0 percent
All Other Property	6.0 percent
Manufacturing Real/Personal	10.5 percent
Utility Real/Personal	10.5 percent
Personal Property	10.5 percent
Railroads, Airlines, & Pipelines	9.5 percent

Local school districts also collect revenues from fees for special activities like admissions, bookstore sales, pupil organization membership, and student fees. Rental fees are collected for private use of school property. Tuition is collected for summer school and adult education programs. Other local revenues include proceeds from legal and insurance settlements.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Fiscal authority of South Carolina's school districts to levy millage varies greatly. The following chart delineates specific spending limits for school districts (School Boards, 1994).

Number of School Districts	*Fiscal Authority*
13	Unlimited by School District
7	Unlimited by County Education Brd.
28	Limited by School District
9	Limited by County Education Board
5	Statutory Cap (maintenance)
29	None

School districts with unlimited authority can increase millage without any other approval. School districts with unlimited authority by the county board of education must submit the budget to the county board of education to approve a millage increase. School districts with limited authority to increase millage are limited to a maximum increase in the number of mills, a predetermined percentage above the previous year, EIA maintenance of effort, or the EFA inflation factor. Those school districts with a statutory cap may not exceed the same total number of mills levied or a predetermined total number of mills. School districts with limited fiscal authority, a statutory cap, or no fiscal authority may seek an additional increase in millage from various bodies of governance. Some of these governing bodies include the county legislative delegation, county council, a town meeting, or through referendum.

Spending Limits

The Education Improvement Act does require that each district raise its local tax revenue effort on a per-pupil basis by not less than the annual inflation factor. This requirement is known as the "local maintenance of effort" requirement. School districts may apply to the State Board of Education for a waiver on an annual basis.

XV. EARMARKED STATE REVENUE

One cent of the sales tax is earmarked for the Education Improvement Act Fund, which funds most of the categorized programs listed above.

XVI. SPECIAL TOPICS

Innovative Programs

A number of state and locally initiated reform projects are underway in South Carolina. The South Carolina Center for the Advancement of Teaching and School Leadership, created as part of Target 2000, selects Associate Schools from among those submitting proposals for innovative change and restructuring. Each Associate School has a college partner, and undertakes model innovative decision making, teaching strategies, flexible scheduling, and vertical team planning. The Center provides workshops, a telecommunications network, on-site visits, and assistance with data analysis. Currently, there are about 100 Associate Schools.

The South Carolina Curriculum Frameworks is an on-going program to bring together teachers, higher education faculty, and other practitioners to write curriculum frameworks.in eight discipline areas defining what students should know and be able to do as they move through the system and how the system can better support the efforts of teachers. Following the development of all eight frameworks, the state will revisit each framework on a rotating basis. The Twelve Schools Project involves 12 schools selected to assist the state with implementation of the curriculum frameworks by developing instructional units and alternative assessments.

A number of other programs with connections to larger national reform efforts are underway. The Accelerated Schools Project (based on work of Henry Levin), Cities in Schools, Rising From the Middle (based on Carnegie's *Turning Points*), Tech Prep, and Re:Learning (based on work of Coalition of Essential Schools) are examples of such reform innovations currently in place.

School Choice and School Vouchers

In South Carolina, several legislative initiatives have addressed school choice, though in practice, it is limited to isolated cases where parents are allowed to choose schools due to family difficulties rather than a specific program for all. Some magnet schools are in place for students with special talents. Nonetheless, support for both public and private school choice by the recently elected Republican Governor and recently re-elected Republican State Superintendent of Education will enhance legislative efforts for choice.

Currently, statutory requirements mandate that students attend the school for which they are zoned unless the parent owns land in another attendance area or unless there is mutual agreement between districts supporting a transfer. In 1990, a bill was introduced to the state legislature to allow students to transfer to schools outside their assigned district with funding accompanying their move. The bill was never adopted. Several additional bills were introduced in 1993, and though not acted upon favorably, are likely to resurface in future years. The "South Carolina Public School Choice Act of 1993" provided for transfer of students to schools outside their attendance zone. School boards are authorized to set standards for accepting and rejecting students, and transportation would be a responsibility of the parents. All funds would follow the students who transferred. Racial balances could not exceed plus or minus five percent of the previous ratio in accepting schools, and any desegregation court orders would take precedent in cases of conflict.

Another bill, the "Parental Choice Act," called for the State Board of Education and State Department of Education to develop a "certificate" system to allow students to attend public or private schools of their choosing. The bill provided for students to pay additional funds in cases where the certificate does not fully cover tuition. These certificates would be equal to the per pupil EFA funding in the state, with the exception of at-risk students who could receive 125 percent of the EFA allotment. The bill also provided for a Parent Information Center to be created by the State Department (see Bingham, 1994, for a discussion of school choice legislation in South Carolina).

Another significant school choice initiative emerged from a private organization composed of business leaders, parents, and others, the Save Our Schools Committee, led by the Secretary of State. In their report presented to the state legislature, "Parental Education Empowerment for South Carolina" (Harrison, 1993), a marketplace type of competition was urged. A voucher plan was proposed that would permit state money to be used for tuition at private schools. The same per pupil weighting currently employed in the state would determine the value of each student's voucher. Participating schools would have to agree to administer prespecified tests and to report student achievement scores prior to accepting any state money. Low income parents would receive 1.2 times the value of their child's weighting.

In sum, though no formal school choice plan is currently in place, several initiatives are underway supporting the implementation of several plans. Interest groups have expressed their perspectives on choice. While the South Carolina School Boards Association came out against choice, the South Carolina Association of School Administrators set criteria for consideration and emphasized that local school systems should decide upon the implementation of choice. In addition, the South Carolina Education Association endorsed choice with certain qualifications, while the South Carolina Business Center for Excellence supported intra-district choice (see Bingham, 1994). In the current political atmosphere, choice efforts will no doubt intensify.

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SOUTH DAKOTA

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I. GENERAL BACKGROUND

State

- The current state aid formula has its roots in the formula passed by the 1986 Legislature (Senate Bill 155). The 1986 version of the formula was state aid equals general fund expenditures minus various revenues minus local effort. This version used a complex formula for calculating local effort. In 1990, the Legislature passed House Bill 1090, which simplified the complex local effort formula, which in turn greatly simplified the state aid formula. The 1990 law change retained the same formula.
- Low teacher salaries continue to be a point of discussion in South Dakota. For the 1993-94 school year, the average salary of the 9,153 teachers was $25,259.

Local

- South Dakota contains 178 K-12 school districts, with an average daily membership (ADM) of 133,306 students. Not including capital outlay, debt service or enterprise funds, total expenditures of the 178 school districts are $558.3 million. Of that amount, 60.3 percent of the expenditures are instructional. On the revenue side, 54.9 percent of the districts' revenue comes from the property tax, 6.3 percent from other local sources, 28.6 percent from state sources, 9.5 percent from federal sources, and 0.7 percent from other financing sources (mostly operating transfers).
- There is considerable diversity in the size of school districts in South Dakota. The largest two school districts in the state have an ADM of 17,316 and 14,216, with general fund expenditures of $60.9 million and $50.1 million, respectively. The largest 15 school districts in the state account for 51.5 percent of the ADM, with the remaining 163 school districts accounting for 48.5 percent of the ADM.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$159 million
Grants in aid	159 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Tax Revenue		$323 million
Property tax		
Other local source tax revenue		
Local source non-tax revenue		
Total Combined State and Local School Revenue		$482 million
State Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $75 million (47.1% of total state school aid).

Nature of Program: Foundation. Reimbursement type formula.

Allocation Units: None. The formula is expenditure driven and not based on units.

Local Fiscal Capacity: Assessed property valuation plus other revenues.

How Formula Operates: The formula for distributing general state aid to school districts is found in SDCL 13-13. South Dakota's formula for providing state aid to local school districts has two major characteristics. First, the formula is a reimbursement-type formula. Expenditure data from two years prior is used to determine the amount of state aid that is received by a school district. For example, data from the 1991-92 school year are used to determine the state aid distribution in the 1993-94 school year. Second, the formula is expenditure driven; the more a school district spends, the more state aid could be allocated to that district, assuming the district is maintaining a minimum local effort.

The amount of state aid a district receives is equal to:

$$SA = GFEXP - REV - LE$$

where: SA = the amount of state aid to the district
GFEXP = the district general fund expenditures
REV = various district revenues
LE = district local effort.

With the formula in mind, the following is a detailed look at each side of the formula.

1. "SA" is the amount of state aid received by a school district in a particular school year.

2. "GFEXP" is a school district's general fund expenditures for the school fiscal year two years prior to the year for which state aid is distributed. In addition to the actual general fund expenditures, GFEXP also includes depreciation on vehicles owned by the district for the purpose of public transportation and depreciation of advanced technology equipment (see SDCL 13-13-37.1). Also included in GFEXP is any money transferred out of the general fund into the special education fund that is expended on a special education program, but not included in reimbursable special education costs. There is a separate formula for reimbursement of special education costs.

3. "REV" includes money received by a school district's general fund from miscellaneous sources such as interest earnings, athletic receipts, federal sources, and several types of financial assistance from state or other local governments.

4. "LE" is an amount that the formula calculates for each district's formula tax effort. This is referred to as local effort. This amount does not determine local taxes, it determines local effort for purposes of the formula only. LE is determined according to the following steps:
   a. determine the market value for all agricultural property in the school district;
   b. determine the market value for all non-agricultural property in the school district;
   c. determine the average state-wide tax rates for agricultural and non-agricultural property by solving the following two equations for AR and NAR:

$$AR \times AV + NAR \times NAV = TAXES$$

$$NAR = 2 \times AR - 0.0048$$

where: AR = an unknown, the state-wide average tax rate on agricultural property;
AV = the market value of agricultural property in the state;

NAR = an unknown, the state-wide average tax rate on non-agricultural property;
NAV = the market value of non-agricultural property in the state;
TAXES = the total amount of school general fund property taxes raised.

d. add a constant to AR as computed in step (c) so that when AR plus the constant multiplied times the market value for agricultural property and the corresponding value for NAR is multiplied times the market value for non-agricultural property, the formula will generate a value of SA for all school districts equal to the amount of money appropriated by the Legislature for distribution through the formula.

To summarize, state aid is determined by the formula SA = GFEXP - REV - LE. GFEXP and REV are fixed amounts, so therefore, when adding the formula for all school districts, the only way in which the right hand side of the formula can be made equal to the amount of money appropriated by the Legislature is to adjust the level of local effort (LE).

State Share: See formula.

Local Share: See formula.

Weighting Procedures: None.

Adjustments for Special Factors: Reorganization/Contracting Incentive Grants. The state provides financial incentives out of general aid monies to small school districts to dissolve and merge with other school districts. The state will pay the full tuition rate to the newly created school district (approximately $4,737 per student) for the first year and one-half that amount for the second and third years following reorganization. This incentive can be applied to a maximum of 125 students. This applies only to secondary students. The state provides a similar incentive to school districts that close their secondary school and contract their secondary students to surrounding school districts.

Districts Off Formula: Not available.

III. TRANSPORTATION

Transportation expenditures are included in the basic support and special education support formulas.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

No state aid is provided for capital outlay or debt service.

Local Capital Project Financing

Information not provided.

V. TEACHER RETIREMENT

Information not provided.

However, see Section X — Other Categorical Programs: State Aid for Salaries and Benefits.

VI. SPECIAL EDUCATION

Funding in 1993-94: $27.5 million (17.2% of total state school aid).

Description: South Dakota's method of distributing state aid for special education follows the same philosophy as the method for distributing general state aid to education. That is, the special education formula is a reimbursement-type formula and the formula is expenditure driven. The formula for a school district's state aid for special education is as follows:

$$SEA = SEEXP - 0.007 \times V.$$

where: SEA = the amount of state aid for special education.

SEEXP = the amount of allowable expenditure by a school district on its special education program. Allowable expenditures include instructional and support expenditures, but do not include capital expenditures.

V = the taxable value of property in the school district. If the Legislature does not appropriate the exact amount of money called for by the formula, the shortfall or excess is prorated between the school districts.

State and Local Shares: School districts spend $66.3 million on special education. Of that amount, 54.8 percent is instructional. On the revenue side, 33.4 percent of the special education fund revenue comes from the property tax, 2.5 percent from the other local sources, 46.7 percent from state sources, 12.4 percent from federal sources, and 5 percent from other sources.

The property tax base for the school districts' special education levy is $21.5 billion of property (the differential tax rates for agricultural and non-agricultural property apply only to the general fund levy; for the special education levy, the tax rates are the same). The maximum levy is an effective tax rate of 1.2 percent or $1.20 per $1,000 of taxable valuation.

VII. COMPENSATORY EDUCATION

In South Dakota, compensatory education is not funded or required. The federally funded Chapter I program is awarded by county by number of students and each school district applies for their allocation. A school district may choose not to participate. Federal funds allocated to a non-participating district are redistributed to other districts for special projects.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: School districts are entitled to reimbursement of 50 percent of their expenditures on allowable gifted education costs (SDCL 13-33-15). If the appropriated amount of funds is not sufficient to reimburse the school districts then each school district is reimbursed on a pro rata basis.

IX. BILINGUAL EDUCATION

The state does not support a program of bilingual education. The school districts apply directly to the U.S. Department of Education for funding of projects.

X. OTHER CATEGORICAL PROGRAMS

Auxiliary Placement

Funding in 1993-94: $3.9 million (2.5% of total state school aid).

Description: These funds are used to pay tuition expenses of minors under the care and custody of the Department of Social Services, the Unified Judicial System, the Department of Human Services, the Department of Corrections, county welfare, Bureau of Indian Affairs, or licensed voluntary agencies if the children reside in non-profit institutions and attend educational programs approved by the Department of Education and Cultural Affairs. The programs can be elementary, secondary, or special education in nature. The various agencies compile their needs based on the number of children assigned to them and refer to the Department of Education and Cultural Affairs for the funding.

Vocational Education

Funding in 1993-94: $12.6 million (7.9% of total state school aid).

Description: South Dakota reimburses school districts, the four area vocational technical institutes, and the State Penitentiary for the approved costs of running vocational programs. State appropriations are used in conjunction with federal funds. The Board of Education approves the programs offered at the many locations, then the total state appropriation is divided among the various entities. Of the $12.6 million appropriation, secondary vocational education received $3 million and post-secondary vocational education received $9.6 million.

Three-Day Curriculum and Staff Development

Funding in 1993-94: $2.0 million (1.3% of total state school aid).

Description: South Dakota provides this funding for teacher workshops prior to the start of the school year. School districts aren't required to pay the teachers in a lump sum. A few districts spread the $196 per teacher over the course of the school year. Only full time teachers, librarians, and counselors are entitled to this funding.

State Aid for Salaries and Benefits

Funding in 1993-94: $15.8 million (10% of total state school aid).

Description: State aid for salaries and benefits is distributed to school districts according to SDCL 13-13-53 and SDCL 13-13-53.1. These two sections divide the $15.8 million into two sums; $6.1 million, which was the amount appropriated in FY 1990; and $9.7 million, which is the increase from FY 1990 to FY 1991. The $6.1 million is distributed on a pro-rata basis according to each district's share of salaries and benefits. The $9.7 million is distributed on a pro-rata basis according to each district's share of certified classroom teachers, guidance counselors, and librarians.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Information not provided.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax base for the school districts is estimated at $8.3 billion of agricultural property and $12.6 billion of non-agricultural property.

Additional information not provided.

Income Tax

Information not provided.

Other Sources of Local Tax Revenue

Information not provided.

Tax Credits and Exemptions

Information not provided.

XIV. TAX AND SPENDING LIMITS

Tax Limits

For the general fund, the school districts may levy up to a maximum effective tax rate of 1.44 percent on agricultural property and 2.4 percent on non-agricultural property (the tax rates are the same for the first 0.48 percent, and at that point the rate on non-agricultural property increases at twice the rate of agricultural property until the maximums of 1.44 percent and 2.4 percent are reached). Other maximum levies are 0.12 percent for special education and 0.3 percent for capital outlay. Note: South Dakota's statutes define levies in terms of $1,000 of assessed valuation, so, for example, one would find the maximum general fund levy on agricultural property to be $14.40 per $1,000 of assessed valuation.

Spending Limits

Information not provided.

Voter Approval of Budgets and Bond Issues

Information not provided.

XV. EARMARKED REVENUE

None.

XVI. SPECIAL TOPICS

Information not provided.

TENNESSEE

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I. GENERAL BACKGROUND

State

- In 1993-94, the state share of revenues for K-12 education was approximately 48.3 percent, the local share 42.1 percent, and the federal sources accounted for about 9.6 percent. The state contribution was in steady decline prior to 1992. For the 1992-93 school year, partial implementation of a new funding formula, the Basic Education Program, which is part of the Education Improvement Act of 1992, provided improved funding, and as the new Basic Education Program formula advances over five years toward full funding, the state share should increase substantially.

- State funds for the public schools come almost entirely from sales taxes. During the 1993-94 school year the state sales tax rate was 6.00 percent. On April 1, 1992, the state sales tax rate was increased from 5.50 percent to 6.00 percent, but only for one year. On April 13, 1993, however, the sales tax increase was made permanent, and was dedicated to fund the Basic Education Program reforms.

- The Tennessee Education Finance Act of 1977 made important changes in the method of school finance in Tennessee and established the Tennessee Foundation Program (TFP) which was first implemented during the 1978-79 school year.

- In March, 1992, the Education Improvement Act (EIA) of 1992 was enacted and signed by the governor. The EIA is a comprehensive reform act which includes among its provisions a large piece of legislation focused on finance called the Basic Education Program (BEP). While Tennessee school funding is still in transition from the TFP to the BEP, the paragraphs that follow will explain the BEP in detail.

- On July 7, 1988, a lawsuit was filed against the state by the Tennessee Small School Systems (TSSS). TSSS charged that, because of inequities in funding, the state had failed to provide equal protection of the law to small rural districts, and asked the court: (1) to declare the Tennessee Foundation Program unconstitutional, (2) to enjoin defendants from acting under the current TFP statutes, and (3) to require that a constitutional education finance system be enacted by the legislature. Declaratory judgment was handed down by the trial court on July 25, 1991, holding that Tennessee school funding was not uniform, and was, therefore, in violation of the "equal protection" provisions in the Tennessee constitution. After a second hearing an order was filed on September

13, 1991, calling on the legislature to meet its constitutional obligation by reforming school finance before June 30, 1992. Appeal was filed by the state in October of 1991. On June 5, 1992, the court of appeals overruled the trial court saying, essentially, that the Tennessee constitution contains no guarantee of uniformity, that education is not a fundamental right, and that educational funding is a purely legislative matter. TSSS appealed to the Tennessee supreme court which accepted jurisdiction on September 3, 1992.

- The supreme court filed an opinion on March 22, 1993, reversing the court of appeals, and, finding the TFP not to be a rational means of funding public schools, declared the state school funding system unconstitutional. The case was remanded to the trial court for the chancellor to revise his order. In a July 26, 1993, hearing TSSS agreed that the Basic Education Program (BEP) solved much of the problem, but asked that it be fully funded immediately, and that additional funds be provided to bring rural schools' physical plant up to standard and to equalize teachers' salaries. The chancellor denied TSSS' petition, and filed an order on September 28, 1993, recognizing full funding of the BEP over five years to be constitutional. TSSS appealed the same issues to the supreme court, which accepted jurisdiction on April 22, 1994.
- In an opinion filed February 16, 1995, the supreme court agreed with the chancellor that substantial improvement in educational opportunities throughout the state under the BEP can best be accomplished incrementally, and that the record does not support the plaintiffs' contention that funding for capital improvements should be given priority over other needs. But, the court found that exclusion of teachers' salary increases from the equalization formula substantially impairs the objectives of the plan. Consequently, the plan must include equalization of teachers' salaries. In May, 1995, at the end of the legislative session, legislation mandating the equalization of the salaries of certificated personnel was enacted. The case is once again on remand to the trial court where a revised order must be crafted, but no new hearing date has been announced.
- During 1993-94, there were no mid-year cutbacks in state funding. The 1993-94 school year is the second year of the BEP, and the state has provided BEP funding of $167.3 million beyond the "restored" funding level of the TFP in 1991-92, and is $487.7 million short of full funding of the BEP budget. The TFP funding for 1991-92 is referred to as "restored" because during the recession year of 1990-91 the state withheld part of the TFP funding, which was restored in the following year.

Local

- In 1993-94, there were 139 school districts in Tennessee. School districts in Tennessee are fiscally dependent.
- Special school districts are created by private acts of the legislature enabling a group of citizens in a county to vote in the majority for the establishment of a school district that disregards city boundaries. There are 14 special school districts. Special school districts may petition directly to the legislature for tax rate increases beyond those set in the act establishing the district.
- Property taxes and local option sales taxes are the two major sources of local district tax revenues. Statewide, 28 percent of local revenue for education is derived from local option sales taxes and 36.5 percent comes from property taxes.
- Tennessee has a classified property tax system with different assessment ratios: utility (55%); commercial/industrial (40%); personal property (30%); and residential and farm property (25%).
- During the 1993-94 school year, the maximum local option sales tax rate was set at 2.75 percent. At least one-half of the local option sales tax revenue is required to go to education. The BEP did not increase the local option sales tax rate.
- Revenue collected at the county level for educational purposes must be distributed on the basis of weighted full-time equivalent average daily attendance (WFTEADA) to each school district within the county. For example, a growing county district needing funds for capital projects must share any new funds raised with other districts in the county, thus requiring the county district to raise more money by new taxes or bond issues than is needed for its own capital projects. City and special school districts may elect to raise taxes in their districts without sharing the proceeds with other districts in the county. The result of this unusual system of

distributing funds is to provide city and special school districts in a particular county with more revenue per pupil than is available to the county district.

- Except for the limit on the local option sales tax rate, there is no maximum general purpose tax rate or levy in effect for local governments.
- The state does not set a debt limit.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,695 million
Total Local School Revenue		$1,838 million
Property tax revenue	647 million	
Other local source tax revenue	830 million	
Local source non-tax revenue	361 million	
Total Combined State and Local School Revenue		$3,533 million
State Financed Property Tax Credit Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

The Basic Education Program (BEP)

Funding in 1993-94: $1,4800 million (88% of total state school aid).

Nature of Program: A minimum foundation program, known as the Basic Education Program (T.C.A. 49-3-351-365).

The Basic Education Program became involved in the small school litigation described above only when, in 1993, the supreme court of Tennessee remanded the case to the trial court for the chancellor to frame an order to accomplish a constitutional funding system. The chancellor was willing to wait until the formula was fully funded before evaluating the BEP. Upon second appeal the supreme court, however, analyzed the BEP in its entirety to assure itself that the new program would solve the school funding crisis. For their deliberations, the supreme court found it necessary to prepare a synopsis of the BEP which is excerpted below.

> The funding scheme that caused the constitutionally impermissible disparities in educational opportunities was the Tennessee Foundation Program augmented by categorical grants from the state to local school systems. Funding under that program, which included only token equalization for the local systems, was not related to the costs of providing programs and services by the several local school systems. State funding for the local systems was based primarily on average daily attendance of students. Local funding depended upon local sales tax collections and discretionary appropriations by local governments. The TFP was principally a state-ordered program with little managerial discretion at the local level.
>
> The BEP is quite different from the TFP in concept. It is designed to provide, when fully funded, the programs and services essential to a basic education for public school children in grades K through 12 throughout the state. That objective is to be accomplished by defining the essentials of an effective education plan suitable for every local system and implementing that plan through organizational structure, disciplined management and adequate funding.
>
> Under the BEP, the appropriation and distribution of funds are determined by the cost of a program necessary to provide an adequate basic education for the students in all local systems throughout the state. The total funds necessary to fully fund the BEP are substantially greater than those made available under the TFP. Using fiscal

year 1990-91 as a base, additional funds are provided to each local system each year to improve its educational program as well as to reduce existing disparities in funding among the local systems.

The BEP, as enacted, provides for the allocation of funds to each local school system based on the costs of 42 "components" found by the State Board of Education to be needed by all local systems. The allocation formula uses average daily membership of students rather than average daily attendance, and limits the ratio of students to teachers.

The formula whereby the component parts of the program are determined is reviewed annually by a BEP review board, which includes the Commissioner of Education, the Commissioner of Finance and Administration, representatives of local school systems, representatives of professional education organizations, and other members designated by the State Board of Education. With concurrence of the BEP review board, the Board of Education may adjust the BEP formula to reflect changes whereby the system can be improved. The revised formula must be approved by resolutions of the Senate and House of Representatives before any change can become effective.

The actual cost of each component of the BEP for each local school system is determined annually, according to a formula which reflects the variations in the costs of providing programs and services throughout the state (T.C.A. 49-3-351(a)). The total cost of the BEP for each local system is the sum of the costs of its 42 components. The total cost of the BEP for the state is the total costs of all local systems.

This cost, the actual cost of providing the programs and services embodied in the BEP, determines the funding to be provided by the state and the minimum funding to be provided by local government for public schools each fiscal year.

Other provisions of the Education Improvement Act (EIA) of 1992, concerned with issues of governance and accountability, are designed to address "the relative indifference" to education demonstrated by some local systems, which the supreme court found to be a contributing factor to the inequities in educational opportunities. The EIA grants to local officials more discretion in the management of the system while holding those officials accountable for obtaining measurable accomplishments in providing an effective educational system.

Each local system is required to develop a long-range plan, including goals and strategies, and to distribute an annual report showing the progress made toward their achievement. Performance by each local system is monitored by state officials. Any local system that fails to achieve the objective standards set forth in the plan may be "placed on probation" by the Commissioner of Education with the approval of the State Board of Education (T.C.A. 49-1-602). After two consecutive years on probation, some or all of the members of the local system's board of education and/or the superintendent may be removed from office by the Commissioner of Education with the approval of the State Board of Education. The statute provides for the selection of their successors.

The BEP requires state and local funding, but the amount of funds collected or appropriated by a local government does not affect the funding provided to that local school system under the BEP. The 42 components of the BEP are divided into two categories, classroom components and non-classroom components. The state is obligated to fund 75 percent of the cost of the classroom components and 50 percent of the cost of non-classroom components. A proportionate share of the total cost of the BEP is assigned to each local system based on its county's relative ability to pay — its "fiscal capacity." Fiscal capacity is calculated using a methodology developed by the Tennessee Advisory Commission on Intergovernmental Relations. Each county's fiscal capacity is calculated as a percentage of the total capacity of all counties in the state. The capacity calculations are based on sales tax base, property tax base and income. Each local government is required by statute to appropriate the funds determined to be its share.

Equalization under the BEP will be completed according to the five-year funding plan adopted in 1992. It utilizes as a base the state TFP distribution of restored funds in 1991-92 to each local system. The TFP funding scheme is used for no purpose other than identifying this base amount. No school system will receive an annual amount less than its TFP base amount. The difference between the base amount and the total cost of the BEP when fully funded is the determinative factor in the equalization formula. Annual funding in excess of the base amount is distributed among the local systems on a pro rata basis according to the difference between each local system's base amount and the amount that local system would receive if the BEP were fully funded (T.C.A. 49-3-354(e)). During the transition period, the local system that has the greatest difference between its base and its entitlement under the BEP fully funded, will receive the greatest percentage increase in funding.

In addition to the funding for the 42 components of the BEP provided by the state and by local systems, the state provides other funding for the following purposes: (1) to increase funding for systems experiencing growth in enrollment of two percent or more during a school year; (2) funding for an information management computer system connecting all schools in a local system to their central office and all central offices to the State Department of Education office in Nashville; and (3) additional funding for the technology component. Although these three items are outside the basic 42 component plan, their funding is still allocated according to the BEP incremental equalizing formula.

Allocation Units: Average daily membership (ADM) of regular and vocational education pupils and identified and served (I & S) special education pupils are used in the context of an elaborate cost formula. LEAs track ADM enrollment for the whole year, and report it monthly to the State Department of Education which monitors it for consistency. Average ADM enrollment in the current year becomes the basis for budgeting in the next year. Average ADM enrollment will be subject to adjustment in the next budget year if the estimated year end ADM varies more than two percent from the ADM used in budgeting. ADM was chosen over ADA because it does not punish districts for the bad habits of their pupils, and basing budgets on prior year ADM allows budgets to be finished and submitted to local funding agencies prior to the opening of school. The BEP requires LEAs to have their budget approved and fully funded prior to opening, or state contributions may be withheld.

Local Fiscal Capacity: See Equalizing Formula below.

How Formula Operates: The funding formula for Tennessee schools since 1992 is a minimum foundation program determined by using ADM enrollment in the context of this detailed cost formula:

BEP Formula
Prepared for Use in Academic 1993-94

Classroom Components — Components 1 Through 34 (State Share = 75%).

*1.0	Regular Classroom Teachers			
	1.1	K-3		1.0 per 20 ADM
	1.2	4-6		1.0 per 25 ADM
	1.3	7-9		1.0 per 30 ADM
	1.4	10-12		1.0 per 26.5 ADM
*2.0	Vocational Education Teachers			
	2.1	9-12		1.0 per 20 Voc. Ed. FTEADM
*3.0	Special Education Teachers			I&S Caseload Allocations
	3.1	Option 1	Consulting, Direct & Related	91
	3.2	Option 2	Direct Instructional Services	73
	3.3	Option 3	Resource Program — 4-8 Hrs.	46
	3.4	Option 4	Resource Program — 9-13 Hrs.	25
	3.5	Option 5	Resource Program — 14-22 Hrs.	15
	3.6	Option 6	Ancillary — 4 Hrs. per day	2
	3.7	Option 7	CDC — Mainstream	10
	3.8	Option 8	CDC — Self-Contained	6
	3.9	Option 9	Residential Program	0
	3.10	Option 10	Homebound / Hospital	10
*4.0	Elementary Guidance Counselors			
	4.1	K-6 1.0 per 500 ADM		
*5.0	Secondary Guidance Counselors			
	5.1	7-12		1.0 per 350 ADM, Including Voc. Ed.
*6.0	Elementary Art Teachers			

	6.1	K-6	1.0 per 525 ADM
*7.0	Elementary Music Teachers		
	7.1	K-6	1.0 per 525 ADM
*8.0	Elementary Physical Education Teachers		
	8.1	K-4	1.0 per 350 ADM
	8.2	5-6	1.0 per 265 ADM
*9.0	Elementary Librarians (K-8)		
	9.1	School < 265 ADM	0.5 Librarian
	9.2	School 265-439 ADM	1.0 Librarian
	9.3	School 440-659 ADM	1.0 Librarian + 0.5 Assistant
	9.4	School > 659 ADM	1.0 Librarian + 1.0 Assistant
*10.0	Secondary Librarians (9-12)		
	10.1	School < 300 ADM	0.5 Librarian
	10.2	School 300-999 ADM	1.0 Librarian
	10.3	School 1,000-1,499 ADM	2.0 Librarians
	10.4	School > 1,499 ADM	2.0 Librarians + 1.0 for every Additional 750 ADM
*11.0	Substitute Teachers		
	11.1		$20.75 per Total ADM
*12.0	Instructional Assistants		
	12.1	K-6	1.0 per 75 ADM
*13.0	Special Education Assistants		
	13.1	Options 5, 7, and 8	1.0 per 60 Students Identified & Served
*14.0	Principals		
	14.1	School < 225 ADM	0.5 Principal
	14.2	School > 225 ADM	1.0 Principal
	14.3	Elementary Schools with < 100 ADM are not allocated a principal.	
*15.0	Assistant Principals-Elementary		
	15.1	School 660-879 ADM	0.5 Assistant Principal
	15.2	School 880-1,099 ADM	1.0 Assistant Principal
	15.3	School 1,100-1,319 ADM	1.5 Assistant Principals
	15.4	School > 1,319 ADM	2.0 Assistant Principals
*16.0	Assistant Principals-Secondary		
	16.1	School 300-649 ADM	0.5 Assistant Principal
	16.2	School 650-999 ADM	1.0 Assistant Principal
	16.3	School 1,000-1,249 ADM	1.5 Assistant Principals
	16.4	School ADM > 1,249	2.0 Assistant Principals + 1.0 for every additional 250 ADM
*17.0	System-Wide Supervisory Personnel		
	17.1	District Census < 500 ADM	1.0 Supervisor
	17.2	District Census 500-999 ADM	2.0 Supervisors
	17.3	District Census 1,000-1,999 ADM	3.0 Supervisors
	17.4	District Census > 1,999 ADM	3.0 Supervisors + 1.0 for every additional 1,000 ADM
*18.0	Special Education Supervisors		
	18.1	For every 750 I&S Spec.Ed. Students	1.0 Supervisor
*19.0	Vocational Education Supervisors		
	19.1	For every 1,000 FTEADM Voc.Ed. Students	1.0 Supervisor
*20.0	Special Education Assessment Personnel		
	20.1	For every 600 I&S Spec.Ed. Students	1.0 Assessor
*21.0	Social Workers		
	21.1	For every 2,000 ADM	1.0 Social Worker
*22.0	Psychologists		
	22.1	For every 2,500 ADM	1.0 Psychologist
*23.0	Nurses		

	23.1	For every 3,000 ADM	1.0 Nurse (Minimum 1.0 per District)
*24.0	K-3	At-Risk Class Size Reduction	
	24.1	Any school with grades K-3 with > 60 percent of Students on Free / Reduced Price Lunch or > 75 percent in Chapter I Schools. Provides salaries plus benefits to add teachers to reduce class size from 20:1 to 15:1	
25.0	Alternative Schools		
	25.1	District Census K-12	$2.07 per ADM, plus
	25.2	District Census 7-12	$17.32 per ADM, including Voc. Ed.
26.0	Duty-Free Lunch		
	26.1	District Census K-12	$6.27 per Total ADM
27.0	Special Education Early Intervention		
	27.1	3 and 4 Year Old I & S Students. Allocation based on Actual I & S Count and the individual needs of the children.	
28.0	Staff Benefits and Insurance		
	28.1	FICA	7.65% of BEP Salary
	28.2	Health Insurance	$1,658.84 per BEP position
	28.3	Retirement-Certificated	8.68% of BEP Salary
	28.4	Retirement-Classified	2.95% of BEP Salary
29.0	Textbooks		
	29.1	District Census K-12	$36.00 per Total ADM
30.0	Classroom Materials and Supplies		
	30.1	District Census	$24.00 per Regular (Academic) ADM
	30.2	District Census	$111.00 per Vocational Ed. FTEADM
	30.3	District Census	$21.00 per Special Ed. I & S Student
31.0	Instructional Equipment		
	31.1	District Census	$8.00 per Regular (Academic) ADM
	31.2	District Census	$75.00 per Vocational Ed. FTEADM
	31.3	District Census	$11.00 per Special Ed. I & S Student
32.0	Classroom Related Travel		
	32.1	District Census	$2.00 per Regular (Academic) ADM
	32.2	District Census	$16.00 per Vocational Ed. FTEADM
	32.3	District Census	$7.00 per Special Ed. I & S Student
33.0	Vocational Center Transportation (Gives students access to vocational programs at vocational centers)		
	33.1	Allocated to participating systems for transporting students (one way) between school of assignment and vocational center attended part of the day. Allocation based on the number of students transported and the distance between the schools.	
34.0	Technology		
	34.1	Minimum $50,000 per district for two 21st Century Classrooms plus $15.57 per Total ADM.	

Non-Classroom Components — Components 35 Through 42: (State Share = 50 %).

*35.0	Superintendent		
	35.1	1.0 Superintendent per County	
	35.2	If there is more than one school system in a county, each system gets a pro-rata share based on its proportion of total county ADM.	
*36.0	System Secretarial Support		
	36.1	District Census < 500 ADM	1.0 Secretary
	36.2	District Census 500-1,250 ADM	2.0 Secretaries
	36.3	District Census 1,251-1,999 ADM	3.0 Secretaries
	36.4	District Census > 1,999 ADM	3.0 Secretaries + 1.0 for every additional 1,000 ADM
*37.0	School Secretaries		
	37.1	School < 225 ADM	0.5 Secretary
	37.2	School 225-374 ADM	1.0 Secretary
	37.3	School > 374 ADM	1.0 Secretary

			+ 1.0 for every additional 375 ADM
38.0	Maintenance and Operations		
	38.1	District K-4 ADM Census	100 ft^2 per ADM @ \$2.18 ft^2
	38.2	District 5-8 ADM Census	110 ft^2 per ADM @ \$2.18 ft^2
	38.3	District 9-12 ADM Census	130 ft^2 per ADM @ \$2.18 ft^2
	38.4	60 percent of the Total of components 38.1-38.3 dollars is attributed to salaries; benefits and insurance follow rates in 28.0 above.	
	*38.5	District Calculated ft^2	1.0 Custodian per every 19,044 ft^2
39.0	Non-Instructional Equipment		
	39.1	District K-12 ADM Census	\$10.00 per Total ADM
40.0	Pupil Transportation		
	40.1	Amount per district based on number of pupils transported, miles transported, and density of transported pupils per route mile.	
	40.2	Allocated through a formula established by the Commissioner of Education.	
	40.3	45 percent of the allocated dollars are attributed to salaries; benefits and insurance follow rates in 28.0 above.	
41.0	Staff Benefits and Insurance		
	41.1	Support Staff: benefits and insurance follow rates in 28.0 above.	
42.0	Capital Outlay		
	42.1	District K-4 ADM Census	100 ft^2 per ADM @ \$55.00 ft^2
	42.2	District 5-8 ADM Census	110 ft^2 per ADM @ \$56.00 ft^2
	42.3	District 9-12 ADM Census	130 ft^2 per ADM @ \$56.00 ft^2
	42.4	Add 10% to Square Foot cost for equipment	
	42.5	Add 5% to Square Foot cost for architect's fee.	
	42.6	Add debt service (20 years @ 6%)	
	42.7	Sum 42.1 through 42.6	
	42.8	To calculate annual capital outlay, divide 42.7 by 40 years useful life.	

* Salaries Used in Calculating Allocations

Teachers and Other Licensed Personnel

The BEP allocation for salaries for each school system is based on:

a. The number of each type of position generated by the cost components.
b. The current average salary for licensed personnel in that school system, based on the state salary schedule (including the training and experience factor, the mandated salary supplement of \$1,445, a 4% salary increase, and a 0.5% projected T & E increase for FY 94).
c. Average annual superintendent's salary = \$66,800 per county.

Other Personnel

a. Average annual library / instructional assistant salary = \$12,200.
b. Average annual custodian salary = \$12,700.
c. Average annual school secretary salary = \$17,100.
d. Average annual system secretary salary = \$21,200.

If a system within a county having more than one system does not have enough pupils to qualify for an elementary or secondary guidance counselor (Components 4.0 and 5.0), or for a social worker (21.0) or school psychologist (22.0), the relevant county totals are used and each system receives a pro rata share based on its proportion of total relevant enrollment. If county totals are not sufficient to generate a position, the county is allocated one position and each system is allocated a pro rata share of the time of that individual based on its proportion of the relevant enrollment.

Using the BEP formula above, the State Board of Education and the State Department of Education calculate the cost of each of the 42 components in the formula for all of the ADM and I & S enrollment from the previous year in the entire state. This cost budget for the entire state defines K-12 educational "need" for Tennessee, and is the basis for the appropriation request sent to the legislature. The Need Budget for 1993-94 appears below:

Tennessee State Board of Education Funding Needs Report
Fiscal Year 1993-94 BEP Funds by Component within Category

Classroom Support Components		Total BEP Cost (in $ millions)
1.	Regular Classroom Teachers	$833.9
2.	Vocational Education Teachers	60.7
3.	Special Education Teachers	137.9
4.&5.	Guidance Counselors	47.0
6.	Elementary Art Teachers	21.3
7.	Elementary Music	21.3
8.	Elementary Physical Education	35.0
9.&10.	Librarians	35.3
9.&10.	Library Assistants	5.4
11.	Substitute Teachers	17.5
12.	Instructional Assistants	75.8
13.	Special Education Assistants	7.0
14.	Principals	34.3
15.&16.	Assistant Principals	13.2
17.	System-Wide Supervisory Personnel	24.1
18.	Special Education Supervisors	5.0
19.	Vocational Education Supervisors	.9
20.	Special Education Assessment Personnel	6.3
21.	Social Workers	10.3
22.	Psychologists	8.3
23.	Nurses	7.4
24.	K-3 At-Risk Class Size Reduction	14.1
25.	Alternative Schools	7.9
26.	Duty-Free Lunch	5.3
27.	Special Education Early Intervention	0
28.	Staff Benefits and Insurance	326.4
29.	Textbooks	30.3
30.	Classroom Materials and Supplies	27.1
31.	Instructional Equipment	11.2
32.	Classroom Related Travel	3.4
33.	Vocational Education Center Transportation	.8
34.	Technology	20.0
	* Classroom Support Cost Differential Factor	88.3
	Total Classroom Support Funds	$1,942.7
	State Percentage (75 percent)	$1,457.0

Non-Classroom Support Components		Total BEP Cost (in $ millions)
35.&36.	System Personnel	$27.3
37.	School Secretaries	39.5
38.	Maintenance and Operations	266.9
39..	Non-Instructional Equipment	8.4
40.	Pupil Transportation	90.9
41.	Staff Benefits and Insurance	62.7
42.	Capital Outlay	257.9
	* System Support Cost Differential Factor	16.4
	Total System Support	$770.0
	State Percentage (50 percent)	$385.0
Total BEP Funding Need		$2,712.7
Total State Funding		$1,842.0

* Cost Differential Factor

The BEP legislation (T.C.A. 49-3-364) called for a cost-of living study to be used to adjust school funding allocations to counties with higher cost-of-living expenses. The study was completed in 1992-93. The cost differentials included in the 1993-94 BEP budget are based on the ratio between county non-government wages and state-wide non-government wages. Only counties with ratios greater than one are adjusted. For counties with weighted non-government wages less than the state-wide weighted non-government wages, no adjustments are made. In 1993-94 cost of living adjustments were given to 22 systems in 11 counties.

The amount appropriated by the legislature becomes the basis for distribution of funds to individual districts. Because the BEP cost basis approach involves substantial increases in educational funding, the legislature has allowed itself five years in which to achieve full funding, a provision which the Tennessee Supreme Court has found to be constitutional.

Since 1993-94 is the second year of the BEP, its budget has been only partially funded as it will be for the next three years. Fiscal 1997-98 is the year in which the BEP formula is planned to be funded 100 percent. In 1993-94 the legislative request was prepared as follows:

BEP Base (1990-91 TFP Allocation updated for 1993-94)	$1,247.3 million
BEP Appropriation — New Funds	167.3 million
BEP Salary Funds	90.2 million
BEP Funding Requested	$1,504.8 million
BEP — Percent of Need Requested	81.7 percent

State and Local Shares: Once the appropriations are known, the State Board of Education prorates the actual appropriation according to the full need budget. The State Department of Education then has each local district prepare a budget based on the legislative appropriation using the prorated budget allowances.

Equalization. Under the BEP the local contribution to public school funding is equalized using a formula developed by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR). The TACIR approach to determining local fiscal capacity addresses fiscal capacity for education services and includes not only currently legal local tax bases, but also ability to pay, ability to export taxes and service responsibility based on relative student population. To distinguish it from tax capacity, fiscal capacity always has a measure of service responsibility.

The inclusion of income as one of the determinants of local fiscal capacity is an emerging trend that represents both growing concern about the property tax and an awareness that income is a superior indicator for measuring the local ability to pay for education services. Presently Tennessee is one of only 14 states that utilize income data in addition to property wealth to determine fiscal capacity.

The Equalization Formula. Multiple regression analysis is the statistical procedure chosen to predict the value of average county fiscal capacity. The dependent variable is actual local total revenue divided by local average daily membership in public education, or local revenue per pupil. The independent variables are per pupil taxable sales, per pupil equalized property assessment, per capita personal income, the ratio of average daily membership to total population, and the ratio of the sum of local residential and farm property assessment to total local property assessment. In assembling these data TACIR uses a three year moving average in which the oldest year of data is dropped and the most current year of data is added in each subsequent calculation. When all the values for these factors for each county are determined, the statistical procedure is run. The regression equation is:

$$FC = B_0 + B_1P + B_2S + B_3Y - B_4ADM - B_5RES$$

Where:

FC = Predicted County Fiscal Capacity
P = Per ADM Pupil Equalized County Property Assessment
S = Per ADM Pupil County Taxable Sales
Y = County Per-Capita Personal Income
ADM = Ratio of County School ADM Population to Total County Population

RES = Ratio of County Equalized Residential and Farm Assessment to Total County Assessment
B_s = Regression Weights:
    B_0 = State Average County Per ADM Pupil Own-Source Revenue
    B_1 = State Average County Property Tax Rate
    B_2 = State Average County Sales Tax Rate
    B_3 = State Average Taxpayer Equity Regression Weight
    B_4 = State Average Service Responsibility Regression Weight
    B_5 = State Average Tax Burden Regression Weight

The Fiscal Capacity Index. The State Board of Education prefers an index measure of fiscal capacity rather than a per pupil measure. Once TACIR determines the per pupil estimate of fiscal capacity for each county, this value is multiplied by ADM for the county, resulting in an estimate of the county's total fiscal capacity. The values of the 95 counties are summed, and the fiscal capacity for each county is expressed as a percentage of the total. The Fiscal Capacity Index (FCI) for each county is this percentage. The per pupil fiscal capacity of a specific county can move up and down over time, without necessarily causing a major change in the index depending on what changes occur in all 95 counties. The index represents the proportion of the total state fiscal capacity for which each county has responsibility. If, for example, county A has an index of 3.45 percent in 1993-94, then County A is responsible for 3.45 percent of the total local share of school funding provided under the BEP. If the index goes up or down, the local share responsibility changes accordingly.

Equalization of Teachers' Salaries. As a result of the February, 1995, Tennessee supreme court decision, legislation mandating the equalization of the salaries of certificated personnel was enacted by the legislature. This phase of equalization takes effect beginning in the 1995-96 school year, and is not part of the BEP although the BEP distribution formula is used. To develop the legislation the BEP review board examined the average salary and insurance rates for each school district in the state. Arraying the district rates from lowest to highest, then throwing out the top and bottom five percent, they took an average of the middle 90 percent and found it to be $28,094. This dollar figure was recommended to the legislature as the average amount to which all districts with lower rates were to be raised. This approach was adopted by the legislature, and this exact dollar amount appears in the legislation. Of the 139 school districts, 49 were below this average. The total funding required to raise the average salaries in the 49 below average districts was $11.8 million. For the 1995-96 school year the legislature appropriated $7 million.

Adjustments for Special Factors: T.C.A. 49-3-354(c) provides that TFP appropriations to local education agencies for the 1990-91 school year shall be a base, and no local education agency shall receive in subsequent years a lesser amount of funds from the BEP, adjusted for changes in student enrollment, than it received in the 1990-91 school year.

These provisions simply establish a floor for state funding to protect those districts that might lose funding as a result of the transition from the TFP program to the BEP program.

Aid Distribution Schedule: State funds are released to the State Department of Education and re-released to the LEAs on this schedule (T.C.A 49-3-354(a)).

Source	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
BEP 10% on	-	15	15	15	15	15	15	15	15	15	-	15*

* Final payment may depend upon completion of state required documentation.

Districts Off Formula: All LEA's participated in the BEP in 1993-94, and none were off-formula, to the extent the formula has been funded.

III. TRANSPORTATION

Funding in 1993-94: The Tennessee State Department of Education reports that these figures are not available under the current allocation method.

Description: State financial assistance for transportation is now included in the BEP formula, component 40.0.

State and Local Shares: The state's share of the total expenditures for transportation is 50 percent. Local districts also contribute 50 percent as adjusted by their fiscal capacity index.

Extent of Participation: 113 districts provide pupil transportation from their own resources; 11 contract for transportation from adjoining districts; and 15 districts do not provide pupil transportation.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Capital Outlay

Funding in 1993-94: The Tennessee State Department of Education reports that these figures are not available under the current allocation method.

Description: State financial assistance for capital outlay is now included in the BEP formula, components 31.0, 39.0, and 42.0.

State and Local Shares: The state's share of the total expenditures for capital outlay is 75 percent for classroom equipment, and 50 percent for non-classroom equipment, renovation and building. Local districts contribute 25 percent to classroom equipment, and 50 percent to non-classroom equipment, renovation and building projects as adjusted by their fiscal capacity index.

To fund the local portion of capital outlay projects, LEAs may issue and sell bonds through their county legislative bodies. A majority of the members of the county legislative body may approve such an issue, termed "School Bonds." Funds accrued from the sale of school bonds are maintained by the trustee of the county, kept separate from general purpose funds, and applied exclusively for capital outlay projects. An interesting proviso of bond proceeds requires that county districts share bond revenues on an ADA basis with all school districts in the county, unless the bonds are issued solely for county high school capital outlay projects and the city or special school districts have no high schools. Although county districts may elect to tax property only outside city and/or special school districts to pay off principal and interest, this is seldom done since a county district's property taxes would be unlikely to produce sufficient revenue.

As part of the small school litigation the supreme court ruled that capital outlay funding under the BEP formula was not required to be funded at an accelerated rate to help less affluent districts catch up on the provision of adequate educational facilities.

Extent of Participation: All 139 school districts receive state funds for capital outlay.

Other Debt Service

There are no provisions for other debt service other than the sale of bonds for capital outlay purposes and for student financial aid.

V. TEACHER RETIREMENT

The Tennessee Consolidated Retirement System

Funding in 1993-94: The Tennessee State Department of Education reports that these figures are not available under the current allocation method.

Definition: In Tennessee whenever the word "teacher" appears in the code it stands for all certificated personnel working in the public schools, unless the code specifies otherwise.

Description: Teachers participate either in the state retirement system known as the State of Tennessee Consolidated Retirement System (T.C.A. 8-37-402) or in one of six, now closed, local retirement plans operated by the LEA's. These local plans were established (T.C.A. 49-5-901) before the state plan was changed to its current defined benefit format. All teachers entering service since 1977 participate in the state plan. The state plan provides retirement annuities to both state and local plan teachers. The annuity payment to the local plan teachers may be paid directly to the retired teacher, or be routed through the LEA plan.

The 1992 Education Improvement Act Amended T.C.A 8-37-402 to send appropriations for contributions to the Consolidated Retirement System to the State Department of Education for distribution to the LEA's under the Basic Education Program (BEP) formula, requiring the LEAs to transmit those amounts to the Retirement Fund.

State and Local Share: Contributions for retirement in 1993-94 are specified in the BEP formula, components 28.3, 28.4, 38.4, 40.3, and 41.1. The LEAs contribute to the state retirement fund based on the recommendation of their consulting actuary. In 1993-94 school systems contributed 8.51 percent of a teacher's salary, and the teacher contributed five percent.

Extent of Participation: All 139 districts participate.

Social Security

Funding in 1993-94: The Tennessee State Department of Education reports that these figures are not available under the current allocation method.

State and Local Share: Contributions for Social Security in 1993-94 are specified in the BEP formula, components 28.1, 38.4, 40.3, and 41.1.

Extent of Participation: All 139 districts participate.

VI. SPECIAL EDUCATION

Funding in 1993-94: The Tennessee State Department of Education reports that these figures are not available under the current allocation method.

Description: State financial assistance for special education is now included in the BEP formula, components 3.0, 13.0, 18.0, 20.0, and 27.0.

State and Local Shares: The state's share of the total classroom expenditures for special education is 75 percent, and for non-classroom expenditures is 50 percent. Local districts also contribute 25 percent and 50 percent respectively as adjusted by their fiscal capacity index.

Extent of Participation: All 139 school districts receive special education funds.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: Included in the calculation of special education funds by option in the BEP formula, component 3.0, and not separated by category.

Description: The education of gifted and talented students is included in the special education program. Students are reported on the special education census and receive state funds based on the option of service they receive in the special education program.

State and Local Shares: The state's share of the total classroom expenditures for gifted and talented education is 75 percent, and for non-classroom expenditures is 50 percent. Local districts also contribute 25 percent and 50 percent respectively as adjusted by their fiscal capacity index.

Extent of Participation: All 139 school districts receive special education funds.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

School Lunch Program

Funding in 1993-94: $4.6 million (less than 1.0% of total state school aid).

Description: The state (T.C.A. 49-3-313) distributes to LEAs an amount equal to the local match for federal funds distributed to local LEAs under Public Law 91-248.

State Share: Equals the required match to the federal funds

Extent of Participation: All 139 districts participate.

Career Ladder

Funding in 1993-94: $102 million (6.0% of total state school aid).

Description: Under the Comprehensive Education Reform Act (CERA) passed in 1984, the Tennessee legislature established, among other things, a career ladder program (T.C.A. 49-5-5001 et seq.). The Career Ladder was designed to locate, evaluate, and recognize, with incentive salary supplements, those teachers and other certificated employees who are outstanding, and who are willing to accept additional responsibilities in Tennessee education.

State Share: The salary supplements and other expenses connected with the Career Ladder are fully funded by the state. The BEP specifically maintained the Career Ladder as a categorical appropriation, and did not include its funding under the BEP formula.

Extent of Participation: All 139 districts participate.

Vocational Education

Funding in 1993-94: $1.4 million (less than 1.0% of total state school aid).

Description: Distribution by the state (T.C.A. 49-3-318) to LEA's of the amount necessary to match funds received from the federal government under the Manpower Development and Training Act (42 U.S.C. 2620), the Economic Opportunity Act of 1964 (42 U.S.C. 2701 et seq.), and the Vocational Education Act of 1963 (20 U.S.C. 2301 et seq.). This amount is in addition to the money allocated by the BEP formula, components 2.0, 19.0, and 33.0.

State Share: Appropriation is based on a plan submitted to the federal department of education and approved by them.

Extent of Participation: All 139 school districts receive vocational education funds.

Driver Education

Funding in 1993-94: $1.8 million (less than 1.0% of the total state funding)

State and Local Share: Driver education, T.C.A. 49-1-204, remains a categorical grant and receives 100 percent state funding. Tennessee levies a Litigation Privilege Tax, 75 percent of which is earmarked to fund the driver education program.

Extent of Participation:: 91 school districts receive driver education funds.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

None, except for amounts included in Section VI — Special Education.

XIII. LOCAL SCHOOL REVENUE

For 1993-94, local revenues for support of the public schools were:

Funding Summary, 1993-94
Local Revenues

Property Tax Revenue	$647 million	35.2%
Payments in Lieu of Taxes	23 million	1.3%
Local Option Sales Tax Revenue	515 million	28.0%
Other Local Tax Revenue	241 million	13.1%
Other Local Non-Tax Revenue	361 million	19.6%
City / County General Fund Approp	51 million	2.8%
Total	$1,838 million	100.0%

Major Sources of Local Funding: During the 1993-94 school year the state sales tax rate was 6.00 percent and the maximum local option sales tax rate was kept at 2.75 percent. At least one-half of the local option sales tax revenue is required to go to education. Another source of revenue is local property taxes. The categories of property assessment are uniform across the state (residential 25 percent, commercial at 40 percent, and utility at 55 percent), and property tax rates, expressed in dollars per $100 of assessed valuation, are set by the county and city governing bodies.

Equalization: Local revenues are equalized. See Section II, The Basic Support Program.

XIV. TAX AND SPENDING LIMITS

At least one-half of local option sales taxes must be allocated to support education.

Except for limiting the local option sales tax rate to 2.75 percent, there is no maximum general purpose tax rate or levy in effect for local governments.

Voter Approval of Bond Issues

School bond issues need not be submitted to voter referendum (T.C.A. 49-3-1002), but may be (T.C.A. 49-2-101 (5)). The state does not set a debt limit. The BEP also authorizes local school boards to participate in bond funding under T.C.A. 49-3-1210.

Budget Deficits

School districts are fiscally dependent. There is no direct way for local citizens to vote on or otherwise to influence school budgets. County government has the responsibility to assure that school budgets do not go into deficit (T.C.A. 49-2-101 (4)).

XV. EARMARKED STATE REVENUE

Until the 1992 sales tax increase (of 0.5%) was made permanent in 1993, 65 percent of sales tax revenue was dedicated to K-12 education. After April 1993, all revenue from the increase (from 5.5% to 6.0%) was earmarked for education. Tennessee also levies a Litigation Privilege Tax, 25 percent of which is earmarked to fund the driver education program, a tobacco tax (99.4% to education), and a mixed drink tax (50.0% to education).

The BEP re-established school funding as a trust account at the state level, rather than an appropriation from the general revenues of the state. Unused balances, therefore, do not revert to the general fund at the end of each fiscal year. New funds going into the trust account still require, however, an appropriation by the legislature.

XVI. SPECIAL TOPICS

School Choice

Included in the Education Improvement Act of 1992 (T.C.A. 49-6-3104) was a provision that facilitates pupil transfer between school systems by not requiring that the school system transferred from approve the transfer if the transfer is completed by two weeks before the opening of school. This rather passive measure has not been widely advertised. Upon transfer the pupil's state money follows the pupil into the new school system.

Other State Funded Special Initiatives

The State of Tennessee supports special initiatives to individual districts on an "as needed" basis, usually included in a proposal and an application for funds. The total funds distributed in 1993-94 were $8.1 million. The number of districts receiving these special initiative funds was 139.

TEXAS

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I. GENERAL BACKGROUND

State

- The state's share of general fund revenues for public schools has been slowly declining for the past several years, down now to approximately 38 percent of general revenues. Also, the state's percentage of public school personnel salaries that is paid into the teacher retirement system has declined, from a high of 8.5 percent to 7.65 percent in 1990-91 and 7.31 percent in 1993-94.
- The General Fund appropriation for public education is put into a Foundation School Fund (FSF). This is supplemented by the Available School Fund (ASF), which is the earnings from the Permanent School Fund (PSF). The constitution of Texas states that the PSF cannot be expended, but that its earnings can be expended each year (Section XV).
- The Foundation School Fund (FSF) is a distribution fund. At the present time, the fund receives monies transferred from the General Revenue Fund (GRF) in an amount sufficient to make up the difference between the Available School Fund (ASF) monies and the public school districts' Foundation School Program (FSP) entitlements.
- Passed in May, 1993, SB 7, the new Texas Foundation School Program (FSP) consists of two tiers, with the first tier (Tier I) being a form of "percentage equalization" and the second tier (Tier II) being a form of "power equalization," with school districts being allowed to provide additional enrichment above Tier II through local taxes.
- School finance reform has been a major concern in Texas since 1973 when the U.S. Supreme Court ruled in *San Antonio ISD* v. *Rodriguez* that Texas' method of financing public schools did not violate the equal protection clause of the U.S. Constitution. However, the Court, through considerable dicta, stated the Texas system of financing schools was not equitable, and that it was incumbent upon the state legislature to bring about a remedy.
- With the passage of H.B. 72 in 1984 by the Texas legislature, the funding method was revised drastically, and the educational finance reform movement became very pronounced. H.B. 72 changed the basis for distributing state funds from the state attempting to guarantee minimum services for each student in the state to guaranteeing dollars per weighted student. This legislative effort did not stop, but only delayed, a court case from being filed in state district court that asked that the system of funding school districts be declared unconstitutional. In the *Edgewood ISD* v. *Kirby* case, in June, 1987, the district court held for the plaintiff; that decision was upheld by the Texas Supreme Court in 1989.
- During its 1990 special session, the legislature attempted to comply with the court's mandate with the passage of Senate Bill 1. However, the Texas Supreme Court declared S.B. 1 unconstitutional in January, 1991. The 1991 Texas legislature attempted to correct the problem with the passage of S.B. 351, the school finance plan that is in operation for the 1993-94 school year. This act was challenged by both sides, on different points. S.B. 351 was

declared unconstitutional by the Texas Supreme Court in January 1992 on the basis that the County Education Districts are unconstitutional. Senate Bill 7 was passed by the 73rd Texas Legislature and signed into law by the Governor on May 29, 1993. Senate Bill 7 significantly changes certain aspects of the school finance system. The Texas Supreme Court is presently considering the constitutionality of Senate Bill 7.

Local

- There are 1,052 Texas Public School Districts and six special school districts. No school district may have taxable property values per weighted average daily attendant (WADA) of more than $280,000, except for hold harmless provisions associated with certain wealth equalization options. Districts above the equalized level that voluntarily reduce property wealth by detaching property, by purchasing WADA credit, or by contracting for the education of non-resident students can maintain for three transition years a tax base that, at the greater of either a tax rate set in statute or their current 1992-93 rate, will generate maintenance and operations revenue per WADA equal to that of the 1992-93 school year. The rate set in statute is $1.375 per $100 property valuation for 1993-94 and $1.50 for 1994-95 and 1995-96. To achieve an equalized wealth level, school districts may choose from five options: (1) consolidation with another district; (2) detaching and annexing property; (3) purchasing WADA credit; (4) contracting for the education of non-resident students; (5) agreeing to consolidate tax bases with another district.
- Texas has 20 Regional Educational Service Centers (ESCs) that provide a wide range of programs and services to the state's 1,052 school districts. Although most of these are provided on request, there are some training programs that are mandated by the state that the ESCs provide. The ESCs are funded through monies appropriated to them by the state, federal grants, grants from other sources, fees charged to school districts per student, and fees charged to school districts for programs or services provided on a contract basis.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$7,325 million
Grants in aid	6,382 million	
Teacher retirement contributions	943 million	
FICA	0	
Total Local School Tax Revenue		$12,400 million
Property tax revenue (1993)	8,700 million	
Other local and intermediate revenue	3,700 million	
Total Combined State and Local School Revenue		$19,700 million
State Financed Property Tax Credits Attributable to School Taxes	0	

II. THE BASIC SUPPORT PROGRAM

Foundation School Program

Funding in 1993-94: $7,325 million (100% of total state school aid).
Tier I funding $5,600 million (76.5%)
Tier II funding $1,310 million (17.9%)
Other programs $415 million (5.6%)

Nature of Program: A foundation program concept with two tiers. Tier I is a form of "percentage equalization" and Tier II is a form of "power equalization" or "guaranteed tax yield" (Texas Senate Bill 7).

Allocation Units: Pupils. Average Daily Attendance (ADA) — averaged over total days of the school year and based on prior year ADA.

Local Fiscal Capacity: Equalized Assessed Property Valuation — true market value with homestead exemption allowances and production valuation of land used for agriculture production. Business and industry may be granted tax abatements for up to ten years.

Tier I

Tier I funding in 1993-94: $5,600 million (76.5% of total state school aid).

How Formula Operates: The basic allotment for Tier I guarantees $2,300 per weighted student, plus additional entitlements.

State Share: The amount of Tier 1 aid each district receives is equal to the difference between $2,300, or the adjusted basic allotment amount, per WADA plus the additional entitlements and the amount each district receives from the required tax rate of 86 cents.

Local Share: Tier I aid requires an *effective* tax rate of $0.86 per $100 valuation of property.

Weighting Procedures: Additional Entitlements with weightings.

Special Education

There are 13 categories of special education each with its own weighting (Section VI).

Vocational Education	Weighting 1.37 (Section X).
Compensatory Education	Weighting .20 (Section VII).
Gifted and Talented Education	Weighting .12 (Section VIII).
Bilingual Education/English as a Second Language	Weighting .10 (Section IX).
Teaching Improvement Allotments	ADA x $90 (Section X).
Transportation	Linear Density Formula (Section III).
Regional Schools for Deaf	(Section X).
Regional Schools for Visually Handicapped	(Section X).
Pre-kindergarten	(Section XII).

Adjustments for Special Factors: Adjustments are made to the basic allotment for: cost of education index, small district, and sparsity.

1. *Cost of Education Index.* The basic allotment for each district is adjusted to reflect the geographic variation in known resource costs and costs of education due to factors beyond the control of the school district. The adjustment for the 1993-94 and 1994-95 school years is the cost of education index formula adopted for the 1992-93 school year.

   In the future, the Foundation School Fund (FSF) budget committee, by rule, adopts adjustments to the Foundation School Program for resource cost variations beyond the control of school districts. This rule is to apply beginning with the 1995-96 school year. The FSF budget committee reports the adjustments adopted to the legislature and the commissioner of education. If the FSF budget committee fails to adopt the adjustments by September 1, 1995, the commissioner of education will adopt adjustments not later than October 1, 1995.

The Lieutenant Governor appoints five members of the Senate and the speaker of the House of Representatives appoints five members of the house to a committee to conduct a study of certain costs of providing public education. The committee will recommend adjustments for those factors that will provide the most efficient service delivery considering optimum district size, enrollment growth, and other cost factors. For this study, districts and campuses are divided into a variety of categories that include region, size, area, density, educational characteristics and economic conditions. The adjustments are to include an adjustment to account for fast enrollment growth and other factors relevant to a district's need for facilities and for appropriate treatment of the calculation of weighted students.

2. *Small District Adjustment.* The small district adjustment applies to districts that have fewer than 1,600 ADA. Current year's ADA may be used in qualifying for this adjustment. The ADA of a school district that is at least 300 square miles in size and has not more than 1,600 students in ADA is adjusted by applying the formula:

   Adjusted Allotment = {1 + [(1,600 – ADA) x .0004]} x adjusted basic allotment

   The ADA of a school district that is less than 300 square miles in size and has not more than 1,600 students in ADA is adjusted by applying the following formula:

   Adjusted Allotment = {1 + [(1600 – ADA) x .00025]} x adjusted basic allotment

3. *Sparsity Adjustment.* A school district that has fewer than 130 ADA will be provided an adjusted basic allotment on the basis of 130 ADA if it offers a K-12 program and has prior or current year ADA of at least 90 students or is 30 miles or more by bus route from the nearest high school district. A district offering a K-8 program whose prior or current year ADA was at least 50 students or is 30 miles or more by bus route from the nearest high school district will be provided an adjusted basic allotment on the basis of 75 ADA. An ADA of 60 students shall be the basis of providing the adjusted basic allotment if a district offers a K-6 program and has a prior or current year ADA of at least 40 students or is 30 miles or more by bus route from the nearest high school district.

Districts Off Formula: None.

Tier II

Guaranteed Yield Funding in 1993-94: $1,310 million (17.9% of total state school aid).

Description: Tier II guarantees $20.55 per WADA for each cent of tax levied above the Tier I required tax rate ($0.86), up to the 1992-93 tax rate.

State and Local Share: The local school district levies and collects this revenue. If the revenue does not amount to $20.55 per WADA, the state will provide the difference. If the revenue amounts to more, the district gets to keep all of the revenue, up to $28.00 per WADA; above that the district must choose one of the five options to remove the excess (see Section I — Local).

School districts may levy taxes above the Tier I and Tier II levels up to $1.50, but the state does not participate in providing revenue to school districts above the 1992-93 tax rate level and school districts may only keep up to $28.00 per WADA.

Extent of Participation: At least 40 percent of the districts do not receive Tier II monies because they generate more than $20.55 for each cent levied.

Technology Funds

Beginning with the 1992-93 school year, the FSP included a technology allotment. The allotment amount per ADA is $30. Of the amount appropriated for technology, the commissioner is directed to set aside an amount (estimated at $11 million) to finance the long-range plan for technology. Each district will be charged a share of the total amount withheld based on the wealth of the district.

Compensation of Professional & Paraprofessional Personal

A school district must pay each employee who is qualified for and employed in a position classified under the Texas Public Education Compensation Plan not less than the minimum monthly base salary, plus increments for teaching experience, specified for the position.

Contracts for personnel shall be made on the basis of a minimum of ten months of service, which must include the number of days of instruction for students and days of preparation. Personnel employed for more than ten months must be paid not less than the minimum monthly base pay plus increments for experience for each month of actual employment.

Each individual will advance one step for each year of experience until step ten is reached. For each year, up to a maximum of two years, of work experience required for certification in a vocational field, a vocational teacher who is certified in that field is entitled to a salary step credit as if the work experience were teaching experience.

Monthly Salary Schedule by Steps:

Step	*Salary*
0	$1,700
1	1,814
2	1,928
3	2,042
4	2,156
5	2,270
6	2,384
7	2,498
8	2,612
9	2,726
10	2,840

III. TRANSPORTATION

Funding in 1993-914: $242 million (3.1% of total state school aid).

Description: There are three categories of transportation in the FSP: (1) regular transportation, (2) special education transportation, and (3) vocational education transportation.

Regular transportation is calculated using a linear density formula that determines an allowance per mile. Basically, this formula takes into consideration the miles traveled and the number of students transported each mile. The maximum rate per mile allowable shall be set by appropriation based on data gathered from the first year of each preceding biennium.

A school district or county that provides special transportation services for eligible handicapped pupils is entitled to a state allocation paid on a previous year's cost-per-mile basis.

The cost of transporting vocational education students from one campus to another inside a district or from a sending district to another secondary public school for a vocational program or an area vocational school or to an approved post-secondary institution under a contract for instruction approved by the Central Education Agency is reimbursed based on the number of actual miles traveled multiplied by the district's official extracurricular travel per mile rate as set by their local board of trustees and approved by the Central Education Agency.

State and Local Shares: Transportation is funded as part of the FSP discussed in Section II. State and local shares are the same as the FSP.

Extent of Participation: All districts

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

State school aid for capital outlay is included in the Tier II level of the FSP.

Facilities

Emergency Grants. Emergency grants ($50 million) were available for the 1992-93 and 1993-94 school years. The State Board of Education (SBOE) established procedures for administering the grants. The Texas Supreme Court has ruled that a state facilities plan must be in effect by September 1, 1995.

Facilities. The SBOE must establish school facilities standards. Facilities constructed after September 1, 1992, must meet SBOE standards if either state or local funds are used.

Local Capital Project Financing

Additional monies may be provided from cash reserves, bond issues, or maintenance tax debt obligations. The maintenance tax debt obligations can be issued to finance personal property such as portable buildings, copy machines, furniture, computers, buses, automobiles, maintenance equipment, and telephone systems. These only require approval by the board of education, not a vote by the patrons, and can be repaid over a period of several years (no exact time period stipulated by law).

Bonds. In order for a school district to sell bonds, a majority vote by the voters is required in that school district's bond election. There are some restrictions concerning their sale. Bond monies can only be used for capital outlay purposes: e.g., to purchase capital equipment, property, for construction and/or renovation. A school district may use one of two methods in determining the amount of bonds they can issue. A district is authorized to have an unlimited property tax rate for payment of bonds and interest, but limits the total principal indebtedness of the district to ten percent of the assessed valuation. The other method places no direct limit on the principal amount of bonds that may be issued but does place a ceiling on the tax rate that may be levied for bonds and interest. The maximum tax rate that may be voted is $1 per $100 of assessed valuation. Most districts use the first method (unlimited tax bonds.) The maximum term for which a Texas school district bond can be issued is 40 years.

V. TEACHER RETIREMENT

Funding in 1993-94: $943 million (13.0% of total state school aid).

Description: State contributions are made directly to the Texas Teacher Retirement System (TRS). In 1993-94, the state contributed 7.31 percent of an employee's salary. This percent may be changed by the legislature. The employee contributes 6.4 percent of their salary; this amount is withheld by the school district and sent to TRS on a monthly basis. The state does not provide social security coverage for public school employees.

State and Local Shares: The state pays the full cost of the employer's share of teacher retirement up through the state salary schedule. Districts that pay salaries above the state schedule are required to pay retirement on the amount of salary that exceeds the state schedule amount.

Extent of Participation: All districts are required to participate. Some districts provide retirement benefits in addition to the TRS as a negotiated benefit.

VI. SPECIAL EDUCATION

Funding in 1993-94: $1,100 million (15.0% of total state school aid).

Description: For each full-time equivalent student (FTE) in average daily attendance in a special education program, a district is entitled to an annual allotment equal to the adjusted basic allotment multiplied by a weight determined according to instructional arrangement as follows:

Instructional Arrangement	*Weight*
Hospital Class	5.00
Speech Therapy	7.11
Resource Room	2.70
Self-contained, mild, and moderate	2.30
Self-contained, severe, regular campus	3.50
Multi-district Class	3.50
Non-public Day School	3.50
Community Class	3.50
Care and Treatment Facilities Students	5.00
State School Students	5.00
Mainstream	.25

Districts required by federal law to provide an extended year program for special education students who require extended year services to prevent regression may receive up to 75 percent of the adjusted allotment for each weighted full-time equivalent student (FTE). The total amount of state funding available for this purpose is $10 million per year and will be available for programs operated during the summer of 1994. Transportation funding for extended year services will be provided as defined in TEC 21.032(c).

Beginning with the 1993-94 school year, a ratio of FTEs in partially or totally self-contained classrooms to the number of FTEs placed in resource room or mainstream that is 25 percent higher than the statewide average will be reviewed by the Central Education Agency to determine appropriate placement. The commissioner may reduce a district's allocation to a level that is no more than 25 percent above the statewide average ratio. The provision that these savings be distributed to the education service centers for technical assistance is deleted.

For the 1994-95 school year, the following changes are in effect.

1. The add-on weight for the mainstream instructional arrangement increases from .25 to 1.1 This amount will not be deducted from ADA as other instructional arrangements. The change in the funding weight will generate more funds than the funding weight assigned to the resource room instructional arrangement. The State Board of Education will establish the qualifications for the mainstream arrangement.

2. The weights for other instructional arrangements change as follows:

	1993-94	*1994-95*
Hospital class	5.0	3.0
Speech therapy	7.11	5.0
Resource room	2.7	3.0
Self-contained, M & M	2.3	3.0
Self-contained, severe	3.5	3.0
Multi-district	3.5	2.7
Nonpublic day school	3.5	1.7
Community class	3.5	2.7
Care & Treatment	5.0	4.0
State school students	5.0	2.8

3. Two million dollars will be withheld from the total special education appropriation for programs under TEC 21.513 (inclusion of students with disabilities in regular education pilot projects). Each district will be charged a share of the amount withheld based on the wealth of the district.

Beginning with the 1995-96 school year:

1. Self-contained separate campus, multi-district class, and community class are combined into an "off home campus" instructional arrangement. The contact hour credit per day cannot exceed 4.25 hours per day.

2. The contact hour credit per day for the resource, self-contained mild and moderate, and self-contained severe instructional arrangements cannot exceed 3.58 hours per day (1992-93 average of three arrangements).

Both special education and vocational education students are figured on FTEs, based on a 30-hour per week attendance in a program. A student enrolled in a special education or vocational education program for one hour per day, five days per week, is considered to be one-sixth of an FTE student for that program. Also, these FTEs are subtracted from a district's total ADA when calculating their regular program ADA. These are the only two programs in which this is applicable. All other programs are "add-ons," meaning the students count as regular ADA and the weighting is additional.

State and Local Shares: Funded through Tier 1, and additional entitlements.

Extent of Participation: All districts.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: $785 million (10.7% of total state school aid).

Description: The number of educationally disadvantaged students is determined by averaging the best six months' enrollment in the national school lunch program of free or reduced-price lunches for the preceding school year. The weighting for these students is .20.

State and Local Shares: Funded through Tier I additional entitlements. Of the amount appropriated for compensatory education, the commissioner is authorized or directed to annually set aside specific amounts to finance various programs. Included for the 1993-94 school year are programs for parenting students ($10 million), guidance counselor ($7.5 million), communities in school ($10.7 million), unanticipated impact of residential placement facilities ($1 million), and investment capital fund ($1 million). In addition, the cost of administering TAAS and NAPT (estimated at $25 million for 1993-94) are also deducted from the compensatory education allocation.

Each district will be charged a share of the total amount withheld based on the wealth of the district.

Extent of Participation: All districts.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $50 million (less than 1.0% of total state school aid).

Description: For each student a school district serves in a Central Education Agency approved program for gifted and talented students, or in the case of a district that is developing a program in accordance with standards established by the commissioner of education for each student the district identifies as gifted and talented under State Board of Education criteria, a district is entitled to an annual allotment equal to the district's adjusted basic allotment multiplied by .12. Not more than five percent of a district's students in average daily attendance are eligible for funding under this section.

State and Local Shares: Funded through Tier 1 additional entitlements. Of the amount appropriated for gifted and talented, the State Board of Education is authorized to set aside annually $500,000 for programs such as Future Problem Solving, Olympics of the Mind, and Academic Decathalon.

Each district will be charged a share of the total amount withheld based on the wealth of the district.

Extent of Participation: All districts.

IX. BILINGUAL EDUCATION

English As A Second Language

Funding in 1993-94: $75 million (less than 1.0% of total state school aid).

Description: For each student in average daily attendance in a bilingual education or special language program, a district is entitled to an annual allotment equal to the adjusted basic allotment multiplied by 0.1.

State and Local Shares: Funded through Tier 1 additional entitlements.

Extent of Participation: All districts.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $383 million (5.2% of total state school aid).

Description: For each FTE student in average daily attendance in an approved vocational education program in grades 9-12 or in vocational education for the handicapped programs in grades 7-12, a district is entitled to an annual allotment equal to the adjusted basic allotment multiplied by a weight of 1.37.

State and local share: Funded through Tier I additional entitlements.

Extent of Participation: All districts.

Teacher Compensation Allotment

Description: The Career Ladder Allotments has been replaced by the Teacher Compensation Allotment. The entitlement remains at $90 per ADA. The monies may be used to continue to pay teachers who were on the career ladder and it may be used to provide additional compensation to other teachers.

State and local share: Funded through Tier I additional entitlements.

Extent of Participation: All districts.

Regional School for the Visually Handicapped and/or Regional School for the Deaf

If a school district is approved to operate one or both of the above listed schools, an individual contract is negotiated by the district with the state, which determines how much the district will receive from the state for each of the students and the amount the sending districts will pay per student.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Beginning with the 1991-92 school year, three or four year old students will be included in regular attendance. If a school district identifies at least 15 four year old students a program must be offered. If at least 15 three-year-old students are identified, a program may be offered. To be eligible, a child must be unable to speak or comprehend English or must come from a family whose income is at or below the state subsistence level (currently the same as the federal poverty level). These students will count as 0.5 ADA rather than a full ADA and will be included in the regular program attendance count.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Property taxes constitute the sole source of local school district tax revenues. Tax rates up to $1.50 per $100 dollars of property valuation can be set by the school board. School districts may exceed this limit if the additional tax is for debt service, authorized by an election held before April 1, 1991, and issued before September 1, 1992. Land used for farming and ranching may qualify for appraisal based on its capacity to produce crops or livestock (productivity valuation), instead of its value on the real estate market. To qualify, the land must be owned by an individual. Land used in agricultural pursuits and owned by corporations, companies, or groups may qualify as open-space land. Valuation of the land will be the same whether it is productivity valuation or open-space land.

Local governing bodies, individually and independently, determine and set the tax rate for their entity, being regulated only by special laws that might relate to them. There are three principles in the Texas Constitution that pertain to the property tax system: (1) taxation must be equal and uniform; (2) all property must be appraised according to market value, unless the property's use qualifies it for appraisal according to a different standard of value; and (3) all property is taxable unless a federal or state law provides an exemption.

The property tax system runs on an annual cycle in four stages: (1) appraising the taxable property; (2) reviewing and equalizing the appraised values; (3) adopting the tax rates; and (4) collecting the taxes.

The State Property Tax Board conducts a sales to assessed value ratio study every two years.

Tax Credits and Exemptions

Tax Exemptions. The most common type of exemption is the residence homestead exemption. One must use the home, condominium, townhouse, or mobile home as a principal residence on January 1 to claim this exemption. The normal homestead exemption is $5,000, but those over 65 years old qualify for an additional $10,000. A person must file for this exemption between January 1 and April 30 . People have to file only one time as long as they live in the same home. If they move to a new home, then they must file again.

Homeowners who are over 65 automatically qualify for a tax ceiling on their school taxes. The taxes on their home cannot increase for as long as they own their home and live there, unless improvements are added to the home.

XIV. TAX AND SPENDING LIMITS

Tax Limits

A school district may not impose a tax rate that exceeds $1.50 per $100 valuation of taxable property except in certain instances. *The $1.50 limit is a nominal rate.* The $1.50 limit may be exceeded if needed to pay for bonded indebtedness approved prior to April 1, 1991 and issued prior to September 1, 1992. The $1.50 limit may also be exceeded to the extent that it is necessary to impose a higher rate to pay for bonded indebtedness issued after September 1, 1992, due to declining property values.

New debt issued after the passage of SB 7 is still governed by TEC 20.09(d), is limited to $0.50, and requires approval from the Attorney General. The $0.50 limit on new debt is within the $1.50 overall limit.

Voter Approval of Budgets and Bond Issues

A tax rate higher than the authorized limit of $1.50 may be imposed for debt service with voter approval. If a district adopts a tax rate that exceeds the rollback tax rate, an election to limit school taxes is *automatically* triggered on a date not less than 30 days or more than 90 days after the tax rate is adopted. If the election to limit school taxes is successful, the tax rate the district may impose for the *current* year is limited to the calculated rollback tax rate.

The Central Education Agency will furnish each district with the following data for use in the rollback tax rate worksheet furnished by the Comptroller's Property Tax Division:

1. 1992-93 income, calculated as the sum of 1992-93 state aid, the district's1992-93 computed share of CED revenue, and 1992-93 local M & O tax collections;
2. 1992-93 WADA;
3. 1993-94 WADA; and
4. 1993-94 state aid.

The rollback tax rate for the first year of a newly consolidated district will be similarly calculated except that 1992-93 income is the largest 1992-93 income of any of the component districts involved in the consolidation, and the current debt rate is the consolidated district current debt rate.

XV. EARMARKED STATE REVENUE

Permanent School Fund

The Permanent School Fund (PSF) had its beginning in 1854 with a legislative appropriation of $2.0 million, but this amount or any of the earnings was never made available to the public schools. The Texas Constitution of 1876 set aside the perpetual endowment, which marked the real beginning of the PSF. The endowment consisted of all funds previously allocated to education but not spent and a generous addition of half the public domain. Later, oil and natural gas was discovered on much of this land, and all of this revenue must be deposited into the PSF, which cannot be expended. This fund now totals approximately $11 billion and continues to grow each year. The Texas Constitution states that the PSF cannot be expended; only the earnings from the PSF can be expended.

The earnings from the PSF are annually deposited into the state Available School Fund (ASF.) In 1993-94, this amounted to $1,081 million. The ASF fund first pays for the textbooks provided public school students; then the remaining monies are put into the Foundation School Fund (FSF) and with the appropriations from the state's general fund finances the state's portion of the Foundation School Program.

XVI. SPECIAL TOPICS

Limit on Administrative Costs

An allowable administrative to instructional cost ratio for five district size groups will be determined. Each district's ratio will be compared annually to the allowable ratio for the appropriate size group using prior-year expenditure data reported through PEIMS. The district size groups are:

1. fewer than 500 ADA;
2. between 500 and 999 ADA;
3. between 1,000 and 4,999 ADA;

4. between 5,000 and 9,999 ADA; and

5. more than 10,000 ADA.

The commissioner may adjust the ratio of a district to allow for additional administrative cost attributable to the sparsity of a district or to students with special needs.

Administrative costs are defined in Bulletin 679 terms as all funds other than federal, functions 21 (instructional administration) and 41 (general administration), and object codes 6100 (payroll costs), 6200 (professional and contracted services), 6300 (supplies and materials), and 6400 (other operating expenses).

Instructional costs are also similarly defined in Bulletin 679 terms, except the function codes used are 11 (instruction), 22 (instructional resources and media services), 25 (curriculum and instructional staff development), and 31 (guidance and counseling services).

No later than February 1 of each year, the commissioner will notify districts of the requirements and standards for determining the ratios for the following year.

No later than May 1 of each year, districts whose ratio in the prior year exceeded the adjusted standards will be identified.

No later than May 15 of each year, districts that have exceeded the applicable standard will be notified that they are excessive and will be required to reduce their administrative cost to the level of the standard for the following year.

No later than the 60th day after being notified, districts shall submit a compliance plan to the commissioner or request a waiver explaining why the district is unable to comply.

No later than August 15 of each year, the commissioner will notify the responding district if further action is needed.

If a district fails to reduce its administrative costs to the standard level, the commissioner deducts from the district's tier one entitlements an amount equal to the excess amount. If a district does not receive tier one entitlements, the district must remit the amount of the excess to the Comptroller to be credited to the Foundation School Fund. If an excess amount is deducted or remitted, the district must include a statement of the excess amount in the district's report card required by TEC §35 042.

UTAH

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I. GENERAL BACKGROUND

State

- The share of total funds used for education has declined since 1981 from 43.71 percent to 38.44 percent in 1993-94, or approximately five percent. The Minimum School Program has been funded approximately by 75 percent from state funds and 25 percent from local property taxes.
- State funds for public schools come from several sources and are deposited in the Uniform School Fund. The major source of revenue is the state income tax. Under the Utah Constitution, income tax is earmarked for the Uniform School Fund. The difference between total revenues available from the Uniform School Fund and the dollars needed to fund the state's share of the Minimum School Program Act is made up by a General Fund appropriation. In recent years very little general fund money has been needed.
- Utah uses a basic equalization formula that guarantees school districts a basic amount per pupil in membership for 990 hours of instruction, plus add-on funding for special conditions or courses (e.g., special education, technical education, etc.). This basic amount per pupil is called a weighted pupil unit (WPU) and for 1993-94 was $1,539.
- In FY 1993-94, 76 percent of the $1,255 million was provided by state funds with local school districts providing 24 percent of the Minimum School Program funds. In FY 1994, 60 percent of the $1,255 million appropriated was "Basic School Program" with an additional 16 percent going to related costs like health insurance, retirement, social security, etc. Additionally, 15 percent was used to fund restricted add-on programs including special and technical education. Of the remaining ten percent, three percent went to student transportation, three percent went to career ladders, and the balance went to research and development and supporting voted and board leeways.
- School finance reform is a major concern of both state officials and legislators. In July of 1989, a task force was established to study public school financing and 15 major recommended changes were made. A number of these reforms were implemented in the 1991 legislative session for the 1991-92 school year, with others being made in the 1992 session. There were 15 recommended changes. Four of the major changes are discussed below.
    - *Regular Education Allocation Formula.* Funds prior to FY 1992 were allocated on the actual year's average daily membership (ADM). Beginning with FY 1992, regular school funds were allocated on prior year actual ADM plus a fall count day growth factor. The growth factor is determined by comparing the previous year's October 1 count to the present year's October 1 count. This change enables districts to enjoy defined revenue projection much earlier in the school year.
    - *Necessarily Existent Small Schools.* The necessarily existent small schools formula was changed to a linear regression process. The modification gives more funds to the very small schools at the expense of the larger qualifying schools.

- *Special Education Regular.* The funding of Special Education was changed from a level system that was service-driven and had been impossible to fund at 100 percent of generation, to a base system. The new system took the FY 1990 generated figures at 90 percent as a base. With the base funded, growth was funded at the previous year's actual growth in special education or at the district's growth factor of all students based on the fall count data, using whichever is smaller. The student growth is weighted by a factor of 1.53 and added to the base to determine the funding for the new year.

- *Capital Outlay Equalization.* The Critical Building Aid Program that assists needy districts will be continued while an equalization program is phased in. Capital outlay equalization program mandates the levying of a set levy by all districts. The funds derived by this method are recaptured, put with some state funds, and distributed to school districts that are below the state average of assessed valuation per WPU. Receiving districts must levy a minimum of two mills and have used alternate methods of meeting building needs. The law as passed phases in this program over a number of years.

Local

- There are 40 fiscally independent comprehensive K-12 school districts, each of which must participate in the "Minimum School Program," levy the required tax, and be subject to recapture.

- Property taxes constitute the major source of local district revenues. Each district must levy the basic rate (4.275 mills in FY 1994) and may levy other optional taxes for maintenance and operation, special transportation, tort liability, recreation, debt service, capital outlay, and ten percent of the Basic School Program. All of these taxes are subject to legal maximums except debt service, and recreation.

- Utah has a "truth in taxation" law that requires the district to hold a public hearing if the increasing of a specific tax causes the total tax to exceed the certified tax rate. All property in Utah is valued at current market value except for primary residency, which is allowed a 33 percent discount.

Funding Summary, 1993-94

Total State School Aid (All Programs)[1]		$953 million
Grants in aid	953 million	
Teacher retirement contributions*		
FICA*		
Total Local School Tax Revenue		$515 million
Property tax revenue	515 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$1,468 million
State Financed Property Tax Credits Attributable to School Taxes	0	

*Teacher retirement and Social Security contributions are included in all programs and amounts are included in Grants in Aid. Separate amounts are not available.

II. THE BASIC SUPPORT PROGRAM

Minimum School Program Act

Funding in 1993-94: $953 million (100% of total state school aid).

Nature of Program: Foundation. Guaranteed weighted pupil unit, known as the Minimum School Program Act [Utah Code 53a-17a].

Allocation Units: Pupils. Weighted average daily membership. Regular school funds are allocated on prior year actual ADM plus a fall count day growth factor. The growth factor is determined by comparing the previous year's October 1 count to the present year's October 1 count.

How Formula Operates: The basic Weighted Pupil Unit formula guarantees that for each student who is in membership for 990 hours of instruction, the district will receive an amount equal to the value of one WPU. In FY 1994, this value was $1,539. Additional WPUs are generated by formulas in the law for special conditions or courses (e.g., necessarily existent small schools, special education, and technical education).

The programs that generate WPUs fall into four categories: (1) basic school programs, (2) special education (Section VI), (3) technical education (Section X), and (4) other restricted programs (Section X). All of the Basic School Program Funds are unrestricted and may be used by the districts as necessary to fund the basic educational needs of the students.

The state pays costs of a number of programs not included in the WPU value but still related to the basic process of educating children, such as: retirement funding and social security (Section V), student transportation (Section III), regional service centers (Section X), and research and development activities (Section X).

State and Local Shares: The school district is entitled to funding for all WPUs generated by the formulas in the law. However, each local district must levy the required millage, which was 4.275 mills in FY 1994. If the required millage raises less funds than is necessary to meet the guarantee, the additional funds are provided by the state. If the 4.275 mills raises enough money to meet the guarantee, the district keeps it and if it raises more than the guarantee, the surplus funds are recaptured by the state for distribution to eligible districts.

Weighting Procedures: All handicapped students are weighed at 1.53. Kindergarten is weighted at .55 and technology education is at various weighing.

Adjustments for Special Factors: The three funded programs, in addition to K-12, that are considered Basic School Programs are the Necessarily Existent Small Schools, Professional Staff, and Administrative Costs.

The professional Staff program provides additional funding to districts based on teacher years of experience and level of education. A professional staff ratio developed for each district is applied to the K-12 and the necessarily existent small schools WPUs for additional funding.

Aid Distribution Schedule: One-twelfth of the aid payments is made every month beginning in July. The method of payment is the prior year amount plus a growth factor, if there is projected growth.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $33.5 million (3.5% of total state school aid).

Description: Utah law provides funding for transporting eligible students to and from school. A K-8 student must live 1.5 miles from school, and a 9-12 student must live two miles from school in order to be transported with school funds. A special levy may be enacted to meet the costs of field trips, extracurricular activities, and hazard routes. Transportation funds are allocated to districts based on approved bus route miles, and approved time, coupled with an allowance for buses and administrative overhead.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

Capital outlay is primarily a district-funded program. However, the state does provide a small grant ($9.0 million in FY 1994) for school building aid programs. Four building aid programs are available: critical school building aid, continuing school building aid, a non-interest loan plan, and capital outlay equalization. Districts qualify for one or more of the aid programs by having unmet building needs, being bonded to 95 percent of capacity, and levying the required millage.

Local Capital Project Financing

In addition to state aid, local school districts can levy up to 2.4 mills for capital outlay and debt service. The law also includes a provision that authorizes a district to levy whatever millage is necessary to meet bond principal and bond interest payments. The law also allows, upon a vote of the people, the local district to levy up to an additional two mills for capital outlay. This program is called the Capital Outlay Voted Leeway. All bond issues must be approved by a vote of the people.

V. TEACHER RETIREMENT

The Minimum School Program Act allocates funds to school districts for eligible retirement and social security costs. Generally, all programs not funded with federal funds are eligible. The costs of health insurance must be paid from WPU revenue.

VI. SPECIAL EDUCATION

The four sub-programs of Special Education are: (1) Handicapped-Regular Program, (2) Handicapped Pre-School, (3) Extended-Year Program for Severely Handicapped, and (4) Handicapped-State Programs.

The Handicapped-Regular Program add-on WPUs are computed using a weighting factor of 1.53 WPU per each special education student.

The Pre-School Handicapped Program is funded by providing to the district one WPU prorated to allocation for each pre-school child listed as receiving service based on the previous December 1 count.

The Extended-Year Program for Severely Handicapped is funded by taking the number of weeks and days the program is run in each district, times the number of children in each program to determine each district's share of the WPUs provided for this purpose by the Legislature.

The Handicapped-State Program is the last WPU-driven program in Special Education. First, these funds are to be used to support education programs in state institutions like the mental hospital, and secondly to help districts with start-up costs, etc.

VII. COMPENSATORY EDUCATION

No special state funding.

VIII. GIFTED AND TALENTED EDUCATION

See Section X — Other Restricted Programs.

IX. BILINGUAL EDUCATION

No special state funding.

X. OTHER CATEGORICAL PROGRAMS

Two technical education programs are funded through WPUs: Basic Technical Education-District and Technical District Set-Aside. Non-WPU funds are provided for two Technical Education programs; one being public high school students attending area technical schools and the other being public high school students attending other higher education institutions in regions of the state where area technical schools do not exist.

The add-on WPUs for Technical Education-District are generated by legally defined formulas that take into consideration the costs of operating different types of programs. Based on statewide cost studies, programs are categorized into three levels: Level 1 — low cost programs, Level 2 — medium-cost programs, and Level 3 — high-cost programs. The student membership in each program is multiplied by the weighting factor for that program's level to determine the WPUs for the course offered. In addition to the WPUs generated by student attendance in the courses, districts offering technical courses or having an approved technical high school also receive additional WPUs. WPUs are also generated for student placement, summer agriculture, and for running student youth organizations.

Technical District Set-Aside provides funding for equipment and start-up costs of new technical education programs. Part of the amount allocated by the legislature is given to the districts on a base formula (usually around $5,000), with the balance being distributed by competitive project applications based on need and merit.

Other Restricted Programs

Youth-in-Custody, Adult High School Completion, Accelerated Learning, and At-Risk Student Programs are restricted in use and are funded by the legislature as part of the Minimum School Program.

In FY 1994, $5.1 million was distributed through the Youth-in-Custody program to districts with children under the direction of the courts and in need of special services.

In FY 1994, $4.6 million was distributed through the Adult High School Completion program, based 50 percent on population (the most recent census) and 50 percent on prior-year participation.

The three components of the Accelerated Learning program are Gifted and Talented, Advanced Placement, and Concurrent Enrollment. Gifted and Talented funds ($1.3 million in FY 1994) are distributed to districts based on students in membership. Advanced Placement funds ($0.99 million in FY 1994) are distributed based on the number of students who score a "3" or better on an Advanced Placement exam. The Concurrent Enrollment program ($0.5 million in FY 1994) allows students to attend an institute of higher learning for part of the day while still enrolled in high school. The funds are given to participating school districts based on each district's student-hours compared with the statewide total student-hours spent at these institutions.

Regional Service Centers

Funding in 1993-94: $0.67 million (less than 1.0% of total state school aid).

Description: The state provides funds to four regional service centers in rural Utah to provide media, special education, and other support services.

Research and Developmental Programs

Funding in 1993-94: $3.9 million (less than 1.0% of total state school aid).

Description: This budget item provides funds for school districts to conduct research into new processes or for startup costs to adopt an already developed procedure.

XI. STATE AID FOR PRIVATE K-12 EDUCATION

None.

XII. EARLY CHILDHOOD EDUCATION

See Section VI — Special Education.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Property taxes constitute the sole source of local district tax revenues; however, at the secondary level fees may be collected for books, lab expenses, etc. Each district must levy the basic rate — 4.275 mills in FY 1994. This mandatory basic rate provides approximately 24 percent of the funding for the Minimum School Program with the remaining 76 percent being funded from state revenues, primarily state income tax. Local districts may levy optional taxes for maintenance and operation, special transportation, tort liability, recreation, debt service, capital outlay, and ten percent of the Basic School Program. However, all local school tax options have legislative mandated caps, with the exception of the recreation tax option and debt repayment under certain circumstances. The various property tax levies generated $515 million in local revenue for public schools, of which $305 million is part of the Minimum School Program. The balance is local revenue generated by the programs outlined above.

During 1993-94, primary residences were taxed at 68 percent of the full market value. Non-primary residences were taxed at full market value, as were commercial properties.

The Minimum School funding program provided that every district would receive $1,539 per Weighted Pupil Unit from the required base mill rate of 4.275, supplemented by state funds. The Minimum School Program ensures equalized funding for maintenance and operation across the state. Three provisions for increasing funding are available to local districts. The local board can impose a 0.4 mill levy, called a Board Leeway Program, at their discretion; the local board can impose a levy to raise an additional amount equal to ten percent of the Basic School Program; and, the board can ask the voters to approve up to a 1.6 mill voted Leeway.

Annually, the State Office of Education and the Legislature review the state funding mechanisms and funding equity and make necessary adjustments.

Income Tax

Local income taxes are not allowed. All state income tax is dedicated to the Minimum School Program.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

All taxes are subject to legal maximums except the recreation levy. The tax limits are as follows:

special transportation	0.2 mill
tort liability	0.1 mill
debt service and capital outlay	2.4 mills
recreation	none;

A school district may elect to increase its tax rate up to ten percent of the cost of the basic program — those programs that are funded by weighted pupil units. The proceeds from the increase may only be used for debt service, the construction or remodeling of school buildings, or the purchase of school sites, buses, equipment, textbooks, and supplies.

The Basic Levy is set by the legislature and may vary from year to year. Despite the 2.4-mill limit on capital outlay and debt service, a district may levy as many mills as necessary to make current debt interest and principal payments.

Spending Limits

Expenditures by school districts are not limited by the Utah Legislature, but revenue generation is strictly controlled. Because several of the appropriations in the Minimum School Program are categorical, Utah law requires that categorical funds be spent only in the prescribed category; however, this does not prohibit a district from spending other discretionary funds in one of these categories. When funds are generated from special mill levies such as for special transportation, those funds must be spent for the purpose for which they were levied.

Borrowing, for other than capital projects and equipment, would disequalize the Basic School Program and is prohibited except for tax anticipation notes.

Voter Approval of Budgets and Bond Issues

Prior to June 22 of each year, each local school board shall adopt a budget and make appropriations for the next fiscal year. No public vote on the budget is required. If the tax rate in the proposed budget exceeds the certified tax rate defined in law, the board shall comply with the Tax Increase Disclosure Act (that is hold advertised public meetings for the purpose of receiving public input) in adopting the budget.

The public must be involved in voting for the ad valorem bond issues and in the Voted Leeway. To establish a voted leeway program, a majority of the electors of a district voting must vote in favor of a special tax. The public has no direct vote relating to the budget items.

The duly elected board of any school district desiring to issue ad valorem bonds, shall by resolution provide for the holding of an election in the school district on the question of the issuance of the bonds, and the bonds may be issued only if, at the election, the issuance of the bonds shall have been approved by a majority of the qualified electors of the district who vote on the proposition. There are no limitations on the number of times a district can go to the electors to try and pass a bond issue as long as their bonded indebtedness does not exceed the legal limit.

XV. EARMARKED STATE REVENUE

Under the Utah Constitution, income tax is constitutionally earmarked for the Uniform School Fund.

XVI. SPECIAL TOPICS

A local school board shall allow students who reside within the district to attend any school within the district providing adequate capacity exists and application is made prior to the established date for such applications. However, the state does not fund the transportation of students attending school outside their own attendance area. If the student is a Utah resident, but not a district resident, the above described rules apply and a tuition or fee will be charged to the sending district.

No voucher system that utilized public funds to pay for the education of students in private schools exists in Utah.

Innovative Programs

There is a mandate from the legislature that there be an individually written Educational and Occupational Plan (SEOP) for every student in the state. This plan requires students to develop and evaluate their own educational, occupational, and personal goals in consultation with parents, teachers, and school counselors annually.

VERMONT

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I. GENERAL BACKGROUND

State

- In 1987, the new state aid formula appropriation brought the state share of the foundation cost up to 36.6 percent. However, with the weak Vermont economy and inadequate appropriations, the state share has eroded each subsequent year. For 1993-94, the foundation share decreased to 27.1 percent and 1994-95 shows the share at 25.3 percent. For total expenditures, a parallel decline has been seen with the 1993-94 state share down to 28.1 percent. Since 1990-91, state share has declined for both general and categorical programs. General state aid has declined from $148 million to $139.7 million.

- The state share of basic foundation educational expenditures has varied between 20 and 37 percent since 1964. The general trend has been that the state share would erode to about the 20 percent level. At this point, the general dissatisfaction resulted in a new state aid formula with an infusion of significant monies to restore the state share. A spike in state share occurred in 1969 with the adoption of a percentage equalizing formula based on property wealth. In 1982, state share recaptured ground lost since 1969 with the introduction of a percentage equalizing formula that gave income wealth an equal weight with property wealth. State share deteriorated again until 1987 when a foundation plan was put into place.

- State revenues are primarily generated through income and sales taxes. The lottery along with numerous fees and excise taxes, generates a smaller percentage of state revenues. Total state government expenditures in 1993-94 were $1.2 billion (excluding federal pass-through monies) of which $214.9 million were for K-12 education which represents 18 percent of state expenditures. (In 1990-91, the state K-12 appropriation was $212.4 million.) In the overall state budget, a number of revenue sources are earmarked and are not part of the general fund. The largest of these is the transportation fund. State education share, however, is funded from the general fund, which was $667.1 million in 1993-94. Breaking previous precedent, $4.4 million from the transportation fund was allocated to education in this fiscal year.

- Vermont uses a rather straightforward foundation formula for general state aid. The per pupil foundation expenditure level is recommended annually by the Commissioner of Education. The foundation cost is calculated to be the amount of money, on a per pupil basis, a typical school district needs to provide an education meeting state standards for curriculum, facilities, class size, and the like. Foundation costs are *not* total costs as all categorical programs (both state and local shares), local grants and federal monies are excluded. The major exclusions are special education, construction, bonded indebtedness, transportation, and retirement.

- Local financial capability in the formula is based predominantly on property wealth. The legislature determines a foundation tax rate based on cost per $100 fair market value. In 1993-94, this figure was $1.19946. For 1994-95, the rate went up to $1.27263. The lowest foundation tax figure was in 1990-91 when it was $1.085. The foundation tax rate has increased each year as state funds have been limited due to general economic circumstances and political inability to reform the system. The legislature has historically been reluctant to challenge the

Commissioner's foundation cost figure but they have adjusted the foundation tax figure to the size of the available appropriations.

- School finance reform is a perennial subject of debate. With 75 percent of school expenditures coming from local property taxes, the burden is direct and clearly felt in the towns. The Federal Range Ratio for tax burdens across towns has grown to 254 percent. As Vermont towns are relatively small and property wealth is unevenly distributed, extreme variations in local tax burdens exist. Numerous proposals such as a greater state share of education costs, a state property tax, and regional tax sharing have been advanced to resolve these disparities. Yet, all of these notions have failed due to deficiencies in the state tax base, political differences and a very strong localist tradition.

- In Summer, 1992, the Governor commissioned a property tax reform panel and stated that property tax reform would be his primary objective in the next session of the legislature. Little happened in the following 1993 legislative session. The House passed a significant property tax and educational finance reform package in 1994 which included a statewide teacher salary schedule but it failed in the Senate. The Senate counter proposal for regional tax sharing failed as the House saw the proposal as too weak.

- The Governor is proposing local spending caps and a minimum statewide property tax to the 1995 legislature. However, as teacher retirement, payment in lieu of taxes programs, as well as property tax credit programs and fiscal responsibilities would be passed to the local towns, the plan is controversial. The state aid formula is also a key focus of debate and reform recommendations. The house proposed a Guaranteed Yield formula in 1994 but it died with the funding proposal. The primary dissatisfaction with the current formula is that it defines wealth almost exclusively as property and exacerbates inequities in the tax system. The Governor's plan includes a greater emphases on income wealth.

Local

- Vermont has 251 town, city, and incorporated school districts which are the primary units for educational funding. Except for some relatively small categorical funds and grants, all state monies go to the towns. The towns also set rates and collect local property taxes. While most towns operate schools, some are non-operating and tuition their students to other towns. There are 32 Union school districts, four Unified districts, and two Joint Operating school districts. Governance arrangements allow towns to combine resources to provide educational services.

- There are 51 supervisory unions where towns share a superintendent of schools, coordinate special services, conduct business affairs of the schools, provide curriculum and instructional leadership and provide other central office functions. Ten additional superintendencies are contiguous with the boundaries of a single city or town. Union schools, joint operating schools and supervisory unions are financed by assessments to the member towns. County governments have no role in education funding or administration. There are no intermediate or special services units.

- Although there have been recent efforts to authorize local option sales or income taxes, property taxes constitute the sole source of local district tax revenues. There are efforts to develop a statewide or regional property tax but the outcome is uncertain. Some schools have small endowments which are often earmarked. All town, unified and union school district budgets must be voted annually by the citizens. Supervisory union expenses are determined by the board which is composed of school board members from the town school boards in the supervisory union. Joint operating districts do not have to take their budget to the voters but one of the two such districts has chosen to do so.

- The constitutional requirements for education are weak. In the education clause, the mandate is that towns "ought" to maintain a sufficient number of school buildings. The equal protection clause, however, mandates that citizens must pay their fair share of public costs. There is active discussion as to whether the equal protection clause is sufficient to sustain a court challenge. The American Civil Liberties Union has recently mounted a serious effort to challenge the funding system in the courts. There are large educational spending inequities between towns but the tax inequities, as indicated by the ratios between high and low tax rate districts, are much greater yet.

- Each year, minor changes are made to the state aid formula. The key factors, of course, are the foundation level and the foundation tax rate. For FY 94, the maximum amount a district could lose from one year to the next was increased and the minimum amount of aid per pupil was decreased.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$215 million
Grants in aid	194 million	
Teacher retirement contributions	21 million	
FICA	0	
Total Local School Revenue		$436 million
Property tax revenue (CY)	436 million	
Other local source tax revenue	0	
Local source non-tax revenue	0	
Total Combined State and Local School Revenue		$651 million
State Financed Property Tax Credits (not included in education funding)	$15 million	
Federal, Transfer, & Other non-state or Local Funds	$48 million	

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: $139.7 million (65% of total state school aid).

Nature of the Program: Foundation program (16 VSA, Chapter 123 - State Aid).

Allocation Units: Pupils (Average Daily Membership). ADM is averaged over a two-year period and is based on a fall count of the first 40 school days. Adjustments are made in the formula for corrections to the count.

Local Fiscal Capacity: Assessed property valuation and income. Local capacity is predominantly determined by the Aggregate Fair Market Value of real property in the town.

Average income in the district is a small factor in the formula which is calculated from the state's income tax returns. The index of state to local income is used to make small adjustments to the foundation tax rate in the formula.

How Formula Operates: The foundation plan determines state aid by subtracting the local resources available from amount of funds needed.

State Aid = Educational Need – Local Resources Available

Educational need is determined by a two-year average of the number of resident enrolled pupils in the town (ADM). The number of students is adjusted by weighted figures for secondary students (+0.25), poverty (+0.25) and transportation (+0.0385 to +0.0714). The *long term weighted ADM* for 1993-94 was 117,828.

The foundation cost is recommended to the Legislature by the Commissioner on or before December 1 of the preceding year. For 1993-94, $4,025 was calculated to be sufficient to provide an education which met state standards for the average elementary student.

Total Foundation Cost = Weighted ADM x State Foundation Cost
= 117,828 x $4,025
= $474,259,101

Foundation costs represent only $474 million of the $650 million total revenue for the year. As can be seen, foundation costs are not total costs.

State Share: The state share of the basic support program for each district is equal to the total calculated aid minus the local resources available.

There has been no legislated, court, or constitutional method of fixing the state share or responsibility. As noted previously, the state share peaked at 37 percent of the foundation figure and has been declining due to economic circumstances. The legislature has adjusted the foundation tax rate as a means of reconciling educational finance needs with appropriations constraints. This has resulted in a number of anomalies in the operations of the formula: As the foundation tax rate increases, more towns come "off the formula." This causes fewer towns to have a vested interest in the formula. The erosion in state share has caused greater inequities in taxing and spending.

In the earlier percentage equalizing formulas, adjustments of the formula to match appropriations were made with a K factor (coefficient of state share) in the formula.

Local Share: The amount of local resources available to pay for educational needs is based on the value of property in each town. The property value figure used in the formula is the "Equalized Grand List" (EGL) which represents one percent of the aggregate fair market value (AFMV) of all real property in the town. This AFMV is determined by the examination of actual property sales in the town rather than the listed value.

The value of the town's real property is then multiplied by the foundation tax figure. The foundation tax rate is set annually by the legislature and is supposed to represent a "fair tax burden" for education for all property owners. The figure has consistently increased from $1.085 in 1990-91 to $1.27263 in 1994-95 to adjust for the decreases and recissions in state aid combined with the increase in educational costs. In 1993-94, the foundation tax rate was $1.19946. This tax rate figure was increased, on average, to $1.20979 to account for poverty.

Local Resources Available = EGL x Foundation Tax Rate
= $364,757,085 x $1.20979
= $441,281,101

This local capability is theoretical and does not represent monies available for educational funding purposes. This is due to the great disparities in town wealth.

Weighting Procedures: A regular elementary student is weighted 1.0. The ADM is calculated over a two year period to protect districts from financial instability for rapidly growing or declining student population numbers. Funding for special education, vocational, and other categorical programs are not driven through weights in the general state aid formula.

There are three adjustments to the student count within the formula:

Secondary	1.25
Poverty (count based on food stamps)	1.25
Transportation (population density)	1.0385 to 1.0714

Transportation coefficients increase as population density decreases (see below).

Adjustments for Special Factors:

1. Tax Rate Adjustments. The base foundation tax rate is adjusted for income. The average effect, across all towns, is about one cent on the tax rate. Considering that the foundation tax rate is $1.20 for 1993-94, the overall effect of income in the distribution formula is quite weak. A municipal overburden tax rate adjustment was repealed in FY 88.

2. Supplemental Aid Adjustments. Supplemental aid is available for districts that receive some degree of state aid and who spend more than 50 percent above the state foundation figure. However, only $384.8 thousand out of $139.7 million was spent for this purpose in 1993-94.

Construction aid and bonded indebtedness aid are distributed through the general state aid payments although they are not part of the general state aid funding program. These areas will be addressed below.

Aid Distribution Schedule: State aid is provided in three payments on September 1, December 1, and March 1.

- The September payment is one-third of money due and one-third of the adjustment decreases. All adjustment increases are in this payment.
- The December payment is also one-third of money due and one-third of decreases plus all supplemental aid for debt service and for above average expenditures.
- The March payment is one-third of all due monies minus one-third of the decreases.

Districts Off Formula: Of the 251 districts directly receiving aid, only 121 still have operating latitude on the formula. The number of towns "off the formula" has been increasing annually. There are three categories of "off the formula" towns:

1. No Aid Received — "Gold Towns." Districts whose local available resources (as judged by the formula) are 1.5 times greater than their formula needs are called gold towns and receive no state aid except for commitments on bonded indebtedness. As the foundation tax figure increases, more towns find themselves in the no aid category. There were 39 "gold towns" in 1990-91 and this figure has steadily increased to 45 in 1993-94. There are 50 for 1994-95. This represents about 20 percent of the districts. Although not receiving state aid, these towns still spent an average of $1,200 more per pupil than did the rest of the state.

2. Minimum Aid. All districts except for gold towns are eligible for minimum aid. For 1990-91, this minimum was $150 per pupil. For 1992-93, the minimum aid was reduced to $100 per pupil and was reduced again in 1993-94 to $50. In 1993-94, there were 40 towns who received minimum aid. For 25 of the towns, this was the only state aid they received. (The other 15 minimum aid towns received some money under maximum loss protections). Of the $139.7 million in general state aid, only $749,000 was spent on minimum aid.

3. Maximum Predictable Loss — Hold Harmless. This serves the purpose of a hold-harmless provision. If a town's position on the formula deteriorates, state aid can only decrease at a maximum loss figure. For 1990-91, this figure was set at $100 per pupil but increased to $150 by 1993-94. The number of towns affected has steadily increased to 60. The increase in maximum loss amount coupled with an increase in the foundation tax rate was harmful to a number of districts in that they were forced to go to the voters with very significant percentage tax increases. This provision takes $7.4 million of the $139.7 million general state aid.

Summary: Of the 251 districts, 130 receive no aid or receive restricted aid:

Gold Towns — No Aid received	45
Minimum Aid	25
Maximum loss	45
Minimum Aid & Maximum loss	15

III. TRANSPORTATION

Funding in 1993-94: $3.2 million (1.5% of total state school aid).

Description: Transportation is subsidized in the general state aid formula with a categorical multiplier which is based on population density. This accounted for 3,000 of the 118,000 weighted student units in the formula. The ADM student count in the formula is increased according to the number of students per square mile who are transported. The system works as follows:

Category	*Density (Students/Square Mile*	*Weight*
Sparsely settled	3 or fewer	1.0714
Moderately settled	more than 3 but no more than 9	1.0500
Densely settled	more than 9	1.0385

This transportation factor was part of the justification for tapping reserved Department of Transportation monies for general state aid. A similar procedure was used to garner transportation money to transport special education children.

Except for this provision in the general state aid formula, and a limited and separate reimbursement for vocational education transportation, there are no direct subsidies for transportation. Purchase, operations and maintenance are local matters. A recent regression analysis conducted by the state department of education indicates that transportation costs are a primary predictor — although probably not a direct cause — of tax inequities.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

State Funding in 1993-94: $10.0 million authorized for bonds.

Description: Capital outlay is funded separately from the general state aid formula. To be eligible for state construction aid, a local school district must develop educational specifications justifying the need for construction and submit these to the state for prior approval. A licensed engineer or architect must be employed and the building project must be approved by the local voters.

Upon voter approval, the state department of education, and the various concerned state agencies (environmental protection, fire and safety, labor and industry, historical preservation, etc); the project is eligible for state payment of 15 percent of the total cost before ground is broken. Upon certification of completion of the project and inspection by the various concerned agencies, the state pays an additional 15 percent of the total cost (16 VSA 3447).

Local financing of capital costs is approved through the town vote authorization for bonded indebtedness. To provide for cost efficient financing for local districts, the state operates a bond bank that combines issues from various schools and state construction projects.

Recent changes to statute include a provision for a total of 40 percent state reimbursement if a school consolidation is effected by the building addition. New construction that consolidates districts receives aid at 50 percent. These percentages will likely be reduced back to 30 percent in 1995. Vocational construction, if approved, is eligible for 100 percent of construction costs.

Debt Service

Funding in 1993-94: $5.6 million (2.6% of total state school aid).

Description: Capital construction approved by the state is also eligible for debt service aid at the same percentage share provided to the local district in the general state aid formula. These funds are distributed through general state aid payments. In 1993-94, the state paid $5.6 million in support of capital debt service of which $4.7 million was distributed through general aid payments.

Extent of Participation: 151 of the 252 districts received some level of debt service payment from the state.

Local Capital Project Financing

As noted above, local voters must approve capital construction projects in order to receive state capital outlay and debt service reimbursements. Local repayment of debt and interest is almost exclusively through local property taxes combined with the state subsidies noted above. Some school districts have endowment monies available to them that can be used to offset local capital expenditures.

School districts may operate sinking funds or take out loans upon authorization of the voters. Multi-year financing is otherwise prohibited. Long term debt is almost exclusively for school transportation, capital construction, retrofitting or building repairs.

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993-94: $21.0 million (9.8% of total state school aid).

Description: The state teacher retirement program operates out of the Office of the State Treasurer. Prior to 1990, the system was completely paid for by state revenues that were not shown in either the state or local education budgets. Beginning in 1990, virtually all teachers and eligible administrators began contributing 2.75 percent of their pay to the program. In 1992, the employee contribution share increased to 3.7 percent for the 10,360 members covered in this plan ("Plan C"). This money is withheld on a pre-tax basis. Two earlier programs are being phased out: Plan B, a non-contributory program has 975 non-working members as of Fall 1992 and the "old" contributory plan, which has 185 members. Certain employees were able to convert their earlier investments into a single deposit investment account operated by the state. A COLA provision capped at 5 percent per year was added in 1992. Thirty years service is required before full benefits are received although vesting occurs after ten years.

No local district school contribution is made to the state retirement program.

The Governor has proposed that the cost of this program be shifted to local districts and that they receive state aid on their portion. Controversy has followed the retirement program as independent program actuaries claim this program should have been funded at $27 million as contrasted with the $21 million which was state appropriated.

Extent of Participation: All licensed (certified) school employees

Social Security

The state does not contribute in social security payments. Local districts pay the employer share.

VI. SPECIAL EDUCATION

Funding in 1993-94: $32.9 million (15.3% of total state school aid).

Description: In FY 1989, a fundamental reform of special education funding took place (see 16 VSA, part 5). The law required the state to fund 50 percent of special education costs but this requirement was only met in the first year of the program. Since then, the state share has systematically declined to 44.8 percent in 1993-94. An increase in needs (particularly in the emotionally and behaviorally disturbed, and medically fragile categories) combined with insufficient state appropriations has driven the state special education budget into a $4.0 million deficit in FY 1995. Grants to local districts were divided into three major categories:

1. *Mainstream Block Grant.* The purpose of this grant is to provide a stable flow of funds into the districts. Local shares are determined on total ADM counts rather than Individual Education Plan (IEP) counts and is designed to provide for 60 percent of the average salaries of core special education staff. The block grant allows greater

flexibility in the use of personnel which lets local districts serve students who have needs but are not on Individual Education Plans. The flat grant nature of this grant was also to discourage overclassification of students and the child count has subsequently gone down. In 1993-94, $12.6 million was allocated for block grants.

2. *Extraordinary Services Reimbursement.* This category is to protect local districts from catastrophic costs caused by high needs students. Once the individual student cost exceeds three times the foundation cost, then the state pays 90 percent of all eligible costs above this figure. Extraordinary costs in 1993-94 were budgeted at $7.9 million.

3. *Intensive Services Reimbursement.* On a quarterly basis, expenses are reimbursed on a sliding scale based on the wealth of the district as determined by property values. Intensive services eligible for reimbursement are (a) all local expenditures above the 40 percent share the locals must pay under the mainstream block program and (b) that are not paid under extraordinary reimbursements. The law requires that the sliding scale be adjusted each year to provide for a statewide average of 50 percent reimbursement. In actuality, the nature of the sliding scale and the coefficients used to determine reimbursements have been adjusted to match the inadequate appropriations. In 1993-94, the local districts received less than what they were notified they would receive. Since the program monies were already expended, this renegement drove local budgets into a deficit. In 1993-94, $10.9 million was allocated for intensive services reimbursements.

Other major funding areas in special education were for wards of the state ($4.5 million) and early education ($3.7 million). Numerous smaller state programs such as visual, hearing, handicapped, support for homes, corrections, training, nutrition, health, etc. added about $1.8 million.

Local Shares: Local Districts provide all other costs.

Extent of Participation: All districts.

VII. COMPENSATORY EDUCATION

There is no state compensatory program.

However, 1990-91 saw the quick birth and death of a compensatory education program. As noted previously, a categorical student count weighting factor of 1.25 for students in poverty is a part of the foundation formula. Coupled to the appropriations bill in that year was a proviso that the funds generated by this additional weighting unit (covering 9.5 percent of Vermont students) be specifically allocated for compensatory purposes. As this move did not represent"new" money but only increased restrictions and bureaucracy on previously allocated funds, the effect was the opposite of that intended. Facing near universal opposition, the bill was repealed in the the following session. In 1993-94, the poverty multiplier, giving such children an additional weight of .25 in the general state aid formula, showed 13.2 percent of the students in poverty.

VIII. GIFTED AND TALENTED EDUCATION

Other than the Governor's Institutes, which provide accelerated summer programs in science, mathematics, government and the arts, there were no funds allocated for gifted and talented education. The institutes received an appropriation of $30 thousand. This figure has dropped from $52 thousand in FY 91. Youth leadership was funded at $19.8 thousand in the vocational budget for 1994-95.

IX. BILINGUAL EDUCATION

There were 750 students who were served as being non-proficient in English and migrant education serves 1,705. Other than the use of some special education allocations for this purpose, there is no state funded bilingual program.

X. OTHER CATEGORICAL PROGRAMS

Reinventing Schools Grants

The state appropriated $55,698 for grant awards to schools engaged in fundamental educational restructuring. The state also provides $48,177 of in-kind support for the *New American Schools* grant which was received by the state.

Computers and Technology

The Governor has proposed a $1 million Distance Learning appropriation for 1995-96. There was no state money allocated in 1993-94 although a state-competitive grant was passed through to the districts.

Vocational Education

Funding in 1993-94: $7.05 million (3.3% of total state school aid).

Description: State funds are made available to support a network of 16 regional vocational centers whose services are available to all secondary schools. Funds are allocated for overhead and maintenance and for partial reimbursement of tuitions paid by the local school districts. Host and non-operating districts receive 20 percent tuition reimbursement while sending districts receive 50 percent reimbursement. Adult space available students are reimbursed at 40 percent. Administrative and support salaries are subsidized by the state at varying ratios according to the particular position. Transportation is reimbursed at 50 percent up to a capped mileage rate. A state equipment replacement fund provides assistance in obtaining new equipment.

The state appropriation and state share has not kept pace with the legally required obligations. Consequently, program availability and adequacy has deteriorated and costs have been shifted to local districts.

Adult vocational programs are part of the vocational budget. Adult vocational students were funded at $147,279. Space available vocational adult education (those with high school diplomas) went from $500,000 in FY 91 to Zero in FY 94.

The adult diploma, as contrasted with the adult vocational program, was authorized at $61,386 in the 1993-94 school year.

Extent of participation: All school districts.
Secondary enrollment*:* 3,682
Adult with diplomas*:* 262
Adults without diplomas*:* 242

Adult Basic Education

Funding for Adult Basic Education was $2.1 million in 1993-94. The appropriation has declined from $2.2 million in FY 91 and enrollments have dropped from a high of 5977 in FY 92 to 4,600 in FY 94.

Corrections Education

A grant of $162,000 was provided in the general fund to partially subsidize the provision of education in correctional facilities. (28 VSA 120) This figure has also declined from 1990-91.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Vermont has the oldest voucher system in the country. The program was established in the nineteenth century as a matter of convenience for providing an education for all youth rather than as an ideological based reform effort. There are two categories:

1. *The Quasi-Privates.* There are five private academies that have historically served as the designated high schools for their regions. They have recently come into compliance with state education standards and receive publicly paid tuition vouchers from the towns in a manner similar to a union high school. However, they do not have publicly elected board members.

2. *Non-Operating School Districts.* Non-operating school districts not affiliated with specific schools have the option of tuitioning students to private schools.

   - There are 14 non-operating elementary districts who have the option of offering tuition to private schools upon vote of the public. Otherwise, tuition payments are to the public school of parent choice. There are no requirements or exclusions on transportation of these students and local practices vary.

   - There are 95 towns who are not affiliated with a union or regional high school. Students may choose between public and non-religious private secondary schools both inside and outside of the state.

If high school students choose a public school, then the district must pay the announced tuition, which is later adjusted to a "maximum allowable tuition" based on actual expenditures. If the student attends a private (non-religious) school, then the tuition is capped at the state average announced tuition figure.

A recent state supreme court decision allowed tuition to be paid to a religious school under unique circumstances. Until a new decision clarifies the ambiguities, there is legal uncertainty on the issue of paying tuition to religiously affiliated schools. A new case is now winding its way through the courts.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $3.95 million (1.8% of total state school aid).

Description: The Essential Early Education requirement was funded at $3.7 million as set forth in 16 VSA 2948 and is administered through special education. However, services are not restricted to special education eligible children. Grants to each school district are determined on the estimated number of children ages 3- 5 residing in the district. Services are provided through local school districts and are focused on both home based and center based activities.

Smaller grants for *Success by Six* and *Infants & Toddlers* are funded at a combined total of $250,000.

The state appropriation has been relatively constant since FY 1990 but pre-school special education costs have increased from $4.1 million in FY 90 to $7.1 million in FY 94.

State Share: Allocated funds noted

Local Share: Local districts are obligated to pay all costs not paid by the state grant.

Extent of Participation: All districts.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

All local tax revenues are generated by the property tax. Total local property taxes assessed in 1994 was $634.3 million of which $435.5 million was for schools. Over the years, the education share of local property taxes has been relatively stable at about 66 percent. However, the share of local property taxes for education has now inched up to 69 percent due to the decline in state education aid. Local property taxes accounted for 62.3 percent of all local education revenues when state, federal and local sources were combined. This figure has increased from 56.7 percent in FY 1991.

State aid is based on the fair market value of property as determined by recent sales. Properties are divided into several categories (residential, vacation, residential with acreage, woodlands, industrial, etc.) and the fair market value is determined for each category. If there have been insufficient sales within a category and/or within a town to determine a fair market value, then sales from surrounding and comparable towns are used in the calculations.

All classes of properties are to be assessed at 100 percent of market value. Towns whose listed real values depart from the market values by more than 20 percent may be assessed a listing penalty. The amount of the penalty increases as the difference between listed and market values increases up to a maximum penalty of 25 percent of the town's state aid (16 VSA 3475).

In 1990-91, a waiver was put into place for towns who were experiencing extremely rapid inflation in property values. This waiver allowed districts to only have to reassess once every five years if the town's internal variation was not extreme (i. e., a coefficient of dispersion of less than 20). A waiver can also be granted based on the town's reasonable progress toward a reappraisal.

Every other year, the state compares market and listed values and notifies local districts prior to January 1. If the local district feels the market value estimate is too high (and thus, state aid is reduced), they may appeal for a re-determination within 30 days of notification.

Income Tax

There is no local income tax in Vermont. A local option income tax was proposed in 1994 by the legislature but did not pass.

Other Sources of Local Tax Revenue

There are no other sources of local tax revenue.

Some school districts realize some non-tax income from endowments, investments, and tuition from other districts. Endowments and investments represent a small percentage. Some schools realize a large income from tuition but this is a marginal income for most.

Tax Credits and Exemptions

None of the three property tax relief programs show state or local monies as a revenue or expenditure in education budgets.

Homeowner or renter tax rebate. The major property tax credit program is the property tax rebate. To be eligible, the combined household income must be less than $45,000 and the rebate applies only to "Homesteads." A homestead is the primary residence (domicile) with up to two acres. The cap on the amount of income paid to property taxes slides between 3.5 percent and five percent depending upon the income level. All property taxes above this figure are eligible for a total rebate to the eligible taxpayer. Applications for refunds are done through filing state income tax returns.

There is debate over the effectiveness of this program. Some argue that the rebate nature of the program, the time delay between the tax payment and the rebate payment, and the need to request application data from the local Town Clerk serves to mitigate against the effectiveness of this program. Others contend these are not significant obstacles.

A total of $1.7 million was paid in rebates for 1993-94.

Payment in Lieu of Taxes. There is no PILT program for state-owned property although there is a strong interest in such programs. New proposals are expected to emerge in the 1995 legislative session. A payment in lieu of taxes is paid to towns for federal property exempt from taxation. The payments are a small portion of local revenues and are primarily due to national forest land. Such funds are not dedicated and only indirectly support education.

Current Use Program. This program allows property owners to be taxed at the value of the property for which it is currently used rather than at the market value of the land. Certain farm and forest lands may be of far greater value as developed land. This program was established to protect the environment, the tourist industry and the property owner. Timelines and restrictions apply to prevent the exploitation of this program. There were two funded programs in 1994:

Farm/Agriculture/Forest Fund	$9.0 million
Working Farm Tax Abatement	$4.6 million

In the political vernacular, the Farm/Agriculture/Forest Fund is seen as a tax offset for property taxes, but the working farm abatement is not viewed in the same light.

XIV. TAX AND SPENDING LIMITS

Tax and Spending Limits

There are no set maximum or minimum expenditure limits. Local voter willingness to pay provides the upper limit. State standards for education and for facilities provide some weak *de facto* minimum limits on expenditures. The Governor has proposed caps but these have not been enacted. Maintenance of effort provisions and bonded indebtedness shares exert an insignificant influence on minimum expenditures.

The primary limitation on expenditures is that all budgets and all bond issues must be approved by the public through the Town Meeting. The Governor has proposed to the 1995 legislative session that school districts be capped at a three percent increase per year. There is discussion about limiting state aid to high spending districts.

Voter Approval of Budgets and Bond Issues "Town Meetings"

All town school districts must annually have their budgets approved by the voters. The budget is voted off the floor at the Town Meeting on the first Tuesday in March although a number of districts have moved to an "Australian Ballot" where the issues are voted by secret ballot at the polling places the day after the town meeting. Some towns have moved to a May town meeting as the legislature has never determined state aid and other appropriations by the time that town meetings are held in March.

Union districts must also hold an annual meeting and the citizens must vote the budget. Supervisory unions and joint operating district budgets are not voted. Vocational center budgets are voted by the host district school board with advice from the regional vocational advisory board.

The overall passage rate for budgets and bond votes varies directly with the economic climate. In a poor year, about 25 percent of the budgets may fail. In a good year, about five percent may fail. Some towns have a history and tradition of passing each budget with limited controversy. Others have a tradition of repeated failure and extended contentiousness. School districts are obligated to continue to vote budgets until they have successful passage. Some districts have voted as many as six times on the same budget. In some cases, school districts voted on the past as well as the coming school budget at the same meeting. As of January 1995, three districts had still not passed a budget from March 1994. In these cases, a school district is obligated to use state aid allotments and borrow funds to operate a state mandated "minimal" education program until a budget is passed.

Budget Deficits

School districts may not intentionally adopt or operate under a deficit budget. If an unanticipated deficit develops, it must be repaid in the following year. Voters may approve a sinking fund or long term indebtedness by specific vote of the public. Virtually all towns annually authorize the school board to borrow short term monies in anticipation of receipt of state aid and/or property tax revenues.

XV. EARMARKED STATE REVENUE

There are no revenue sources earmarked for education.

XVI. SPECIAL TOPICS

Vouchers and Charter Schools. The 1994 legislative session contained an "Educational Quality Act" that would have expanded existing private school vouchers and established a small number of non regulated chartered schools. The effort failed when agreements on property tax reform could not be reached. The issue will likely return in 1995.

Distance Learning. The Governor has proposed $1 million for television and computerized Distance Learning plus satellite down links in remote areas.

Property Tax Reform. The highest rated need by the state's voters is property tax reform. Given the weak revenue projections and the strong political differences, the outcome of this effort is not predictable. The House will likely provide a program of more comprehensive and sweeping reform while the Senate will focus on rebate and relief programs with, perhaps, regional tax sharing. The Governor has proposed a minimum property tax across the state with a recapture provision of excess revenues which he describes as not being a statewide property tax.

Special Education Funding. The current formula sunsets in June 1996. Given the fiscal shortfalls in this program, the form of the re-authorization is not predictable.

VIRGINIA

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I. GENERAL BACKGROUND

State

- In 1993-94, 95 percent of state funds allocated for K-12th grade education supported the Standards of Quality. The Standards of Quality, adopted by the Board of Education, represent the minimum requirements for a high quality program in all school divisions across the Commonwealth. The current methodology for calculating the cost of the Standards of Quality became effective in the 1988-89 school year.
- The majority of state funds provided for education are appropriated from the state general fund. In 1993-94, the state general fund contributed 79 percent of the total state aid provided for public education; revenue from the one cent sales tax accounted for 21 percent of aid to public education.
- The state share of the cost for regular day school operations has remained relatively constant over the last 10 years. In 1980-81, the state provided funds for 45 percent of the total operating costs. This increased to 47 percent for the 1985-86 through 1987-88 school years. By 1992-93, the state share slipped to 44 percent.

Local

- There are 137 fiscally dependent local school divisions in Virginia. The local school boards do not have taxing authority. In addition, there is no local tax source earmarked specifically for public education. The local governing bodies are responsible for approving the school budgets submitted by the local school boards.
- The major sources of local revenue come from real estate tax (48 percent), tangible personal property tax (16 percent), local sales tax revenue (7 percent) and other miscellaneous taxes.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$2,397 million
Grants in aids[1]	2,239 million	
Teacher retirement	72 million	
FICA	86 million	
Total Local School Revenue[2]		$3,120 million
Total Combined State and Local Revenue		$5,517 million
State Financed Property Tax Credits Attributable to School Taxes	0	

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[1] Includes \$507.1 million in earmarked revenue generated by the one cent sales tax (Section XV).

[2] Information on sources of local school revenue are not available. Local school divisions do not have taxing authority. Revenues are appropriated by the governing body.

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1993-94: \$1,381.6 million (57.6% of total state school aid).

Nature of Program: Minimum foundation program. The Board of Education is responsible for adopting the Standards of Quality (SOQ). The Standards of Quality represent the minimum requirements for a high quality program in all school divisions across the Commonwealth.

Allocation Units: Pupils. Average daily membership. The March 31 ADM is equal to the total daily enrollment for the preceding seven months divided by the number of school days.

Local Fiscal Capacity: Composite Index. The Composite Index is a measure of ability to pay that reflects the true value of real estate property (local property assessment amounts adjusted by the state to reflect true value of sales), local taxable retail sales, and uses adjusted gross income as a proxy for all other local revenue sources. The Composite Index is the weighted sum of the Average Daily Membership Composite Index and the Per Capita Composite Index. The Composite Index is then multiplied by the average local share to determine the Local Composite Index. In 1993-94, the statewide average local share is 45 percent.

The Average Daily Membership Composite Index equals:

$$.5 \times \frac{\text{(Local True Value of Real Property / Local ADM)}}{\text{(Total Local True Value of Real Property Statewide / Total ADM Statewide)}}$$

plus

$$.4 \times \frac{\text{(Local Adjusted Gross Income / Local ADM)}}{\text{(Total Adjusted Gross Income Statewide / Total ADM Statewide)}}$$

plus

$$.1 \times \frac{\text{(Local Taxable Retail Sales / Local ADM)}}{\text{(Total Taxable Retail Sales Statewide / Total ADM Statewide)}}$$

The Per Capita Composite Index equals:

$$.5 \times \frac{\text{(Local True Value of Real Property / Local Population)}}{\text{(Total Local True Value of Real Property Statewide / State Population)}}$$

plus

$$.4 \times \frac{\text{(Local Adjusted Gross Income / Local Population)}}{\text{(Total Adjusted Gross Income Statewide / State Population)}}$$

plus

$$.1 \times \frac{\text{(Local Taxable Retail Sales / Local Population)}}{\text{(Total Taxable Retail Sales Statewide / State Population)}}$$

For 1993-94, the Local Composite Index Equals:

[(.6667 x ADM Composite Index) + (.3333 x Per Capita Composite Index)] x .45

The local composite index is capped at .80 for localities with high ability to pay, ensuring the state provides at least 20 percent of the cost of the foundation program for each pupil. In 1993-94, the local composite indices ranged from .1641 to .8000. Therefore, the state share ranged from 83.59 percent to 20 percent of the calculated SOQ cost.

How Formula Operates: The estimated cost of the programs required by the SOQ are calculated for each school division. The calculated cost of these programs are shared between the state and the local school divisions.

1. A per-pupil amount is calculated for each school division. This per-pupil amount includes costs for instructional positions and support. The required number of instructional positions is calculated for each division based on the actual student enrollment on September 30th and the SOQ staff requirements. Required instructional positions are calculated for each school/grade and then consolidated to the division level. Support costs are calculated based on the prevailing statewide cost. Support costs include such things as support salaries for non-instructional professional and non-professional personnel, non-personnel costs, fringe benefits, maintenance, and fixed charges.

2. The per-pupil amount is multiplied by the March 31 ADM to determine total cost for each school division. The March 31 ADM is equal to the total daily enrollment for the preceding seven months divided by the number of school days.

3. The local school division's share of the one cent sales tax revenue is subtracted from the total cost.

4. The remaining cost is multiplied by the local composite index to determine the local share of the cost. The balance of the remaining cost is the state share of the calculated SOQ cost.

State Share: The state share is equal to the calculated total cost of the SOQ for the district minus district revenues received from the one cent sales tax and the district local share of the SOQ.

Local Share: The composite index is used in the basic aid formula to determine each locality's portion of the SOQ basic operating cost. The local share is equal to the calculated total cost of the SOQ for the district minus district revenues received from the one cent sales tax multiplied by the local composite index. Local school divisions are required to fund the local share of the calculated SOQ cost from local funds. In addition, cost for programs "above" the requirements of the Standards of Quality are funded entirely from local funds.

Weighting Procedures: None.

Adjustments for Special Factors: The per-pupil cost for the school divisions in the Northern Virginia area (near Washington D. C.) includes a cost of competing factor to reflect the higher cost of living for that area. The total SOQ costs are multiplied by 12.89 percent for nine northern Virginia districts. This amount is then divided by the number of pupils in these districts.

Aid Distribution Schedule: State funds are distributed twice a month to local school divisions.

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: Pupil transportation costs are included in the school division's basic aid payment.

Description: Pupil transportation costs are included in the basic aid cost calculated for each school division. Costs are calculated for regular pupil transportation, exclusive schedule for handicapped pupils transportation, special arrangement for handicapped pupils transportation, and bus replacement costs. Transportation costs are based on two factors: (1) land size measured in square miles broken down into two categories — small (less than 80 square miles) and large (more than 80 square miles), and (2) the number of students transported. The costs are calculated based on the 1989-90 prevailing per-pupil costs for each type of transportation.

Regular Pupils:

	Number of Pupils Transported		
	Low Third (1 - 1,800)	Medium Third (1,800 - 4,600)	High Third (4,601+)
Area of Division			
Small	$128.17	$166.61	$166.61
Large	269.68	221.15	186.30

Exclusive Schedule Pupils:

	Number of Pupils Transported		
	Low Third (1 - 30)	Medium Third (31 - 85)	High Third (86 +)
Area of Division			
Small	$2,336.25	$1,202.42	$1,402.26
Large	3,637.17	2,621.93	2,181.75

Special Arrangement: Statewide Costs / $1,499.19

State and Local Shares: The state share of these costs are determined based on a locality's composite index of local ability to pay. The local school district assumes all remaining cost.

Extent of Participation: All 137 local school divisions.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State school aid is not provided for capital outlay financing.

Local Capital Project Financing

The local school divisions are responsible for controlling, erecting, furnishing, equipping, and maintaining necessary school buildings and appurtenances. Pursuant to the Public Finance Act, Virginia's counties, cities, and towns have the authority to issue general obligation debt to finance public school construction. Cities and towns may issue general obligation bonds without a referendum. The total Debt outstanding, however, may not exceed 10 percent of the assessed value of real property in the locality. Counties are not subject to any ceiling, but have to submit the issue to referendum, for voter approval.

There are three methods by which localities can issue general obligation debt for public school construction purposes:

1. *Local Borrowing.* School districts arrange the sale of debt independently in either the public or private markets;

2. *Literary Fund Loan.* The Literary Fund is a permanent and perpetual school fund established by the Constitution of Virginia in 1810 and is used by local school divisions as a source of low-interest loans for the purpose of "erecting, altering, or enlarging school buildings." The Board of Education has set the maximum loan amount available for a single project through the Literary Fund at $2.5 million. An additional $1 million is available, however, if the project will result in the closing of two or more school buildings; or an additional $2 million, if projects results from the consolidation of two or more school divisions. The interest rate charged to local school divisions is determined from the school division's composite index of local ability to pay and ranges from two percent to six percent.

3. *Virginia Public School Authority.* The Virginia Public School Authority, administered by the Authority's Board of Commissioners, is a bond bank that provides low-cost financing of capital projects for public schools in Virginia localities. The objectives of the VPSA loan program are to provide market access to those communities that do not have ready access and provide low-cost financing to communities needing assistance. The VPSA currently issues in excess of $150 million in VPSA pooled and stand-alone bonds per year.

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993-94: $72.4 million (3.0% of total state school aid).

Description: The state provides funds to local school divisions to assist in the cost of the teacher retirement program. The retirement cost, shared between the state and local school divisions, is calculated based on the number of instructional positions required by the Standards of Quality for each school division and a statewide prevailing salary amount. In 1993-94, the state distributed funds based on an 6.36 percent retirement rate. These funds are paid directly to the district. Teachers pay five percent of salary towards retirement. Many districts pay the five percent on behalf of the teachers.

State and Local Shares: The state share of the calculated retirement cost is determined according to a locality's composite index of local ability to pay.

The local school divisions are responsible for all additional costs. Additional costs result from the retirement cost for those positions employed by the local school divisions in excess of the number of instructional positions required by the Standards of Quality and on the portion of salaries higher than the SOQ salary allotments.

Extent of Participation: All 137 local school divisions.

Social Security

Funding in 1993-94: $85.5 million (3.6% of total state school aid).

Description: The state provides funds to local school division to assist in the cost of social security payments. The methodology used to calculate the social security cost and the state and local share of the calculated cost is identical to the teacher retirement payment. In 1993-94, the state distributed funds based on a 7.65 percent social security rate.

Extent of Participation: All 137 local school divisions.

Group Life Insurance

Funding in 1993-94: $.2 million (less than 1.0% of total state school aid).

Description: The state normally provides funds to local school division to assist in the cost for group life insurance payments. The methodology used to calculate the group life insurance cost and the state and local share of the calculated cost is identical to the teacher retirement payment. Payments were suspended in 1993-94, however, because the determination was made that the Group Life Trust Fund had been over funded in previous years. These payments resumed in 1994-95.

Extent of Participation: All 137 local school divisions.

VI. SPECIAL EDUCATION

Funding in 1993-94: $134.6 million (6.0% of total state school aid).

Description: There are two separate programs for special education. The first program, Special Education SOQ payments, provides assistance to local school division for the salary cost of required special education instructional positions. In 1993-94, the state share of this program was $115.9 million. The second program, Special Education categorical payments, provides assistance for the following program areas: homebound instruction, private and regional program tuition costs, inservice, vocational education for handicapped students, and educational programs located in hospitals and detention homes. In 1993-94, the state share of the special education categorical payments was $37.0 million.

State Share: SOQ Payments: The number of required special education instructional positions are calculated for each school division utilizing a special education child count provided by the local school divisions and class size standards for each handicapping condition established by the Board of Education. The state/local share of the salary cost for the calculated number of required instructional positions is determined according to a locality's composite index of local ability to pay.

Categorical Payments:
The state share of the categorical accounts are as follows:

1) Homebound	43 percent
2) Tuition costs	based on the composite index
3) Vocational Education	100 percent
4) Inservice	100 percent

Local Share: The local school divisions assume the remaining cost of these programs.

Extent of Participation: All 137 local school divisions.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: $34.7 million (1.4% of total state school aid).

Description: The Standards of Quality require local school divisions to provide remedial programs in grades K-12 to reduce the number of students who score in the bottom national quartile on tests that currently form the Virginia State Assessment Program and for those who fail the state's 6th grade Literacy tests. The state distributes funds based on nine instructional positions per 1,000 students who scored in the bottom national quartile. In addition, local school divisions received funds based on the number of students participating in special remedial programs in summer school sessions. In 1993-94, funds were distributed for the summer program based on a $283 per-pupil amount.

State and Local Shares: The cost for nine instructional positions per 1,000 students scoring in the bottom national quartile is shared between the state and local school divisions according to a locality's composite index. Also, the state/local share for the summer school sessions are determined based on a locality's composite index.

Extent of Participation: All 137 school divisions participate in the school year remedial programs; 124 local school divisions operated special remedial programs during summer school sessions.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $16.7 million (less than 1.0% of total state school aid).

Description: The Standards of Quality state that local school divisions are responsible for the early identification of gifted students and enrollment of such students in differentiated instructional programs. The state provides an additional payment for Gifted Education programs based on the cost of one instructional position per 1,000 students.

In addition, the state provides funds for the Governor's School programs. This program is described in Section X — Other Categorical Programs.

State and Local Shares: The cost of one instructional position per 1,000 students is shared between the state and local school divisions according to a locality's composite index of local ability to pay. Local school divisions are responsible for all additional cost for their Gifted Education programs.

Extent of Participation: All 137 local school divisions.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $1.8 million (less than 1.0% of total state school aid).

Description: The state provided aid to the local school divisions for English as a Second Language (ESL) programs for the first time in the 1990-91 school year. ESL enrollments have been steadily increasing. In 1985, 9,102 students with limited English proficiency were enrolled in ESL classes across the Commonwealth. By 1993, the number had grown to 17,594, an increase of 93 percent. These students now represent over 100 different languages.

State and Local Shares: The cost of nine instructional positions per 1,000 students for whom English is a second language is shared between the state and local school divisions according to a locality's composite index of local ability to pay. The local school districts assume the remaining costs of these programs.

Extent of Participation: 87 local school divisions.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1993-94: $44.5 million (1.9% of total state school aid).

Description: There are two separate programs for vocational education. The first program, Vocational Education SOQ, provides assistance to local school divisions for the salary cost of required vocational education instructional positions calculated above the basic standards. In 1993-94, the state share of this program was $ 35.2 million. The second program, Vocational Education categorical funds, provides assistance for the following programs: (1) extended contracts, (2) equipment, and (3) adult education. In 1993-94, the state distributed $9 million for these programs.

State and Local Shares: SOQ payments: The number of additional instructional positions are calculated for each school division based on student enrollment data provided by the localities. The state/local share of the salary cost for the calculated number of required instructional positions is determined according to a locality's composite index of local ability to pay.

Categorical payments:
The state share of the categorical accounts are as follows:

1) Extended Contracts	34.7 percent
2) Adult Education	28.4 percent
3) Equipment	$139 per pupil ($1,000 minimum)

Extent of Participation: All 137 local school divisions.

At-Risk Funding

Funding in 1993-94: $23.1 million (less than 1.0% of total state school aid).

Description: Beginning with the 1992-93 school year, state funds are provided to improve educational achievement for at-risk students and to recognize the increased cost of educating "at-risk" children. Funds are provided to local school divisions based on the number and percentage of students participating in the free lunch program. Divisions with greater concentration of students participating in the free lunch program receive a higher at-risk funding per pupil. Depending on the percentages of free lunch participants, school divisions receive between two and 11.4 percent in additional basic aid state funds per at-risk student.

State and Local Share: The composite index is used to determine the state share of this program. Local school divisions are responsible for all additional cost for these programs.

Extent of Participation: All 137 local school divisions.

Maintenance Supplement

Funding in 1993-94: $8.7 million (less than 1.0% of total state school aid).

Description: Beginning with the 1992-93 school year, the state share of $15 per pupil is distributed to local school divisions to assist with the cost for ongoing maintenance needs or debt service payment.

State and Local Share: The composite index is used to determine the state share of the $15 per pupil. Local school divisions are responsible for all additional maintenance and debt service costs.

Extent of Participation: All 137 local school divisions.

Dropout Prevention Programs

Funding in 1993-94: $11.2 million (less than 1.0% of total state school aid).

Description: State funds ($10.4 million) are distributed to local school divisions to implement dropout prevention programs. School divisions receive $177 per pupil for the number of students in grades 6-10 judged to be at risk of dropping out of school. The number of students is determined based on the percentage of eighth grade students scoring in the national bottom quartile on the state assessment tests. Priority consideration is given to those localities with the most acute need for such programs (as reflected by each locality's dropout rate and the improvement in such rate).

In addition, beginning in 1993-94, $750,000 was allocated for the Virginia Guaranteed Assistance program. These state funds are provided to eleven pilot programs related to increasing the success of disadvantaged students in completing high school and providing opportunities to encourage further education and training.

State and Local Shares: State payments were derived by multiplying the estimated number of at-risk children by $177 ($199 for Planning District 8 schools where a cost of competing adjustment is provided). Local school divisions were required to provide an additional $118 per at-risk student ($132 in Planning District 8 schools) for these dropout prevention programs.

Extent of Participation: 103 local school divisions.

Enrollment Loss

Funding in 1993-94: $3.5 million (less than 1.0% of total state school aid).

Description: An additional state payment equal to the state share per-pupil of Basic Aid for each locality for a percentage of the enrollment loss from the 1992-93 school year to the 1993-94 school year.

State and Local Shares: The percentage of the enrollment loss upon which the state payment was made ranged from 80 percent for those localities with a composite index less than .1999 to 20 percent for those localities with a composite index over .50.

Extent of Participation: 32 local school divisions.

Teacher Salary Incentive Payment

Funding in 1993-94: $24.9 million (1.0% of total state school aid).

Description: An additional state payment to provide the state share of a three percent increase in salaries effective December 1, 1993, for the instructional positions required by the Standards of Quality and a two percent increase in salaries effective December 1, 1993, for non-instructional personnel funded by the Standards of Quality. State funds were paid from this account when the division superintendents certified that "sufficient local funds have been appropriated to match the Teacher Salary Incentive Payment, based on the composite index , in addition to meeting the division's required local expenditure for the Standards of Quality."

State and Local Shares: The state share of the Teacher Salary Incentive payment is based on the locality's composite index.

Extent of Participation: All 137 local school divisions.

Textbook Payments

Funding in 1993-94: $7.0 million (less than 1% of the total state school aid).

Description: An additional state payment to local school divisions for the local share of the costs for textbooks.

State and Local Shares: Funds are distributed based on $26.73 per-pupil (ADM) times the local share of the composite index. School divisions operating a free textbook system are reimbursed for 75 percent of the local share of the calculated textbook costs and all other school divisions are reimbursed for 25 percent of the local share of the calculated textbook cost. (Note: The state share of the prevailing per-pupil textbook cost is included in the basic aid payment. These additional funds are provided to encourage local school divisions to operate a free textbook system.)

Extent of Participation: All 137 local school divisions.

School Food Payments

Funding in 1993-94: $5.8 million (less than 1.0% of total state school aid).

Description: State payment is made as a required match to federal revenues. Funds are allocated based on the actual number of meals served.

Extent of Participation: All 137 local school divisions.

Foster Children Payments

Funding in 1993-94: $5.3 million (less than 1.0% of total state school aid).

Description: An additional state payment for the prior year's local operations costs, as determined by the Department of Education, for each pupil not a resident of the local school division providing their education who has been placed by a Virginia agency, whether state or local, that is authorized under the laws of the Commonwealth to place children in: (1) foster care or other such custodial care within the geographical boundaries of the school division; or (2) an orphanage or children's home that exercised legal guardianship rights; or (3) a child-caring institution or group home.

Extent of Participation: 128 school divisions.

Electronic Classrooms

Funding in 1993-94: $2.8 million (less than 1.0% of the total state school aid).

Description: The Electronic Classroom program created a network for delivery of credit courses and staff development programs to address diversity/disparity problems in schools by interconnecting schools statewide to school-based course production sites. State funds are provided to three local school divisions to hire teachers, aides, and technicians to operate the electronic classrooms. In 1993-94, these classrooms offered statewide (via dual channel satellite broadcasts and open broadcasts) the following high school credit courses: Latin I, II and III, AP Calculus, AP English, Japanese I, II and III, Statistics, and Applied Algebra.

Extent of Participation: In 1993-94, over 1,500 students from 65 school divisions participated in these programs. In addition, over 5,000 teachers participated in credit courses utilizing this system.

Governor's School Programs

Funding in 1993-94: $3.9 million (less than 1.0% of total state school aid).

Description: Governor's Schools provide gifted students academic opportunities beyond those normally available in the students' home schools. There are three types of Governor's Schools: the summer residential schools, the summer regional schools, and the academic year schools.

Extent of Participation: In 1993-94, approximately 5,000 students from across the state participated in the Governor's School program.

School/Community Health Services

Funding in 1993-94: $1.5 million (less than 1.0% of total state school aid).

Description: In 1992, the General Assembly directed the Departments of Education and Medical Assistance Services to establish a grant program to pilot school/community health services. The objective of these pilots were to increase access to early intervention health care of Medicaid and uninsured populations and to pilot various models of service delivery for school health services that could be replicated throughout the Commonwealth. In 1992-93, the state provided $300,000 for planning grants for six projects. In 1993-94, the state provided $1.2 million to implement the initial six projects and an additional $300,000 for planning new projects.

Extent of Participation: 16 local school divisions.

Alternative Education Programs

Funding in 1993-94: $1.2 million (less than 1.0% of the total state aid).

Description: An additional state payment for four regional alternative education pilot programs. These programs were funded to educate certain expelled students and students who have received suspensions from public schools and students returned to the community from youth learning services.

Extent of Participation: Four local school divisions that serve students from 16 school divisions.

Adult Education Payments

Funding in 1993-94: $1.0 million (less than 1.0% of total state school aid).

Description: State funds are distributed to local school divisions to reimburse general adult education programs. Priority is given for the following courses: (1) high school credit, (2) GED preparatory, and (3) English as a second language.

Extent of Participation: 80 local school divisions

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: Included in Special Education funds.

Description: State funds are provided for the required number of special education preschool teachers. The number of required preschool instructional positions are calculated for each school division based on the actual number of special education preschool pupils identified by each school division.

State and Local Shares: The state/local share of the salary cost for these positions is determined according to a locality's composite index of local ability to pay.

XIII. LOCAL SCHOOL REVENUE

The major sources of local revenue come from real estate tax (48 percent), tangible personal property tax (16 percent), sales tax (7 percent), and other miscellaneous taxes.

Property Tax

Real Estate Property Taxes. Real estate taxes are levied on residential, commercial, agricultural, and industrial properties. The basis of the tax is the fair market value of the property. General reassessments are required every two years for cities and every four years for counties and towns. However, several localities provide reassessments on an annual basis.

Tangible Personal Property Taxes. The tangible personal property tax is levied primarily on automobiles. The rate of tangible personal property taxation for automobiles varies by a locality's use of three variables: assessment value, assessment ratio, and nominal rate. Each locality is free to select the assessment method and ratio. The local commissioner of revenue determines which pricing guide is to be used to establish assessment values, and determines whether to use an automobiles' retail, trade-in, or loan value as the assessment base. Also, the local commissioner of revenue determines the assessment ratio. The local governing body, however, sets the tax rate.

The assessment ratio for property is 100 percent. The State Department of Taxation conducts periodic equalization studies, comparing market price to assessed values, to determine if an adjustment is needed.

Income Tax

None.

Other Sources of Local Tax Revenue

Sales tax (7 percent).

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

Virginia is a "Dillon Rule" state, therefore, local governments have only the powers that are specifically granted by the legislature. Article X, Section 4, of the Virginia Constitution segregates property for local taxation only. In addition, counties and cities have specified and limited authority to levy taxes on certain licenses, the recordation of property, wills, lodging (transient occupancy), and the consumer use of utilities. Cities have the authority to levy excise taxes on cigarettes, admissions, meals, and travel campgrounds. Only a few counties, however, have the authority to levy these excise taxes, generally with additional restrictions. Cities can levy the meals taxes without restriction to rate; most counties can levy it only with public voter approval and only up to four percent.

Spending Limits

There is no state imposed limit on the amount of funds localities can spend on public education.

Voter Approval of Budgets and Bond Issues

In Virginia, local school boards do not have taxing authority. In addition, there is no local tax source earmarked specifically for public education. County supervisors or city councils are responsible for setting tax rates for all purposes and for approving school budgets submitted to them by local school boards.

As noted in Section IV, cities may issue general obligation bonds without a referendum. The total Debt outstanding, however, may not exceed ten percent of the assessed value of real property in the locality. Counties are not subject to any ceiling, but have to submit the issue to referendum, for voter approval.

XV. EARMARKED STATE REVENUE

One cent of the state's 4.5 cents sales tax is earmarked for school aid. In 1993-94, $ 507.1 million was distributed to the local school divisions from this revenue source. These funds are distributed to the local school divisions based on a school age census. This amount represents 21.2 percent of the total 1993-94 state school aid. The balance of the state school aid comes from the state general fund.

XVI. SPECIAL TOPICS

Charter Schools

Legislation had been introduced in the 1993 and 1994 session of the General Assembly to establish charter schools. Although these bills were not successful, the General Assembly established a joint subcommittee to examine the issues related to charter schools. The joint subcommittee is requested to complete its work in time to submit findings and recommendations to the Governor and the General Assembly in January 1996.

WASHINGTON

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Washington Alliance for Systematic Change

I. GENERAL BACKGROUND

State

- The state share of maintenance and operations revenue for public schools has remained within the narrow range of 77 percent to 80 percent since the 1981-82 school year. The state share increased from 47 percent in 1973-74 to 74 percent in 1980-81.
- In response to a court ruling in 1977, Washington became the first state — other than Hawaii (which has no local school districts) — to assume the full responsibility of funding a basic education program for the state's K-12 public schools. A subsequent court decision in 1983 required the state to fully fund special programs for handicapped, bilingual, and remedial students, as well as transportation costs that are beyond the control of the district (e.g., student transportation made necessary due to hazardous walking conditions). The funding system attempts to equalize educational opportunities among school districts in the state along three dimensions:
  1. program content,
  2. staffing and compensation levels, and
  3. revenues available from state sources.
- Since 1981-82, the state has limited the authority of local school boards to determine teacher compensation by prohibiting school districts from providing teachers with an average salary and benefits level that exceeds the amount set for the district by the state legislature. Beginning in 1987-88, the legislature allowed districts to exceed these salary limitations by issuing separate contracts specifying payment for additional time worked, additional responsibilities, or as incentives. Teacher salaries in 262 of the state's 296 school districts are allocated using a statewide salary schedule; the other 34 districts are grandfathered with average salary levels that are between 0.07 percent and 6.3 percent higher than the amount that would be generated by the statewide salary schedule.

Local

- The state has 296 fiscally independent school districts serving 916,000 students, 247 districts serve 906,000 students in grades K-12.

657

Funding Summary, 1993-94

Total State School Aid (All Programs)		$3,779 million
Grants in aid	3,779 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Revenue		$832 million
Property tax revenue	670 million	
Other local source tax revenue	1 million	
Local source non-tax revenue	161 million	
Total Combined State and Total Local School Revenue		$4,611 million
State-Financed Property Tax Credits Attributable To School Taxes	76 million*	

* Included in Total State Aid.

II. THE BASIC SUPPORT PROGRAM

Basic Education Allocation Formula

Funding in 1993-94: $2,958 million (78.3% of total state school aid for maintenance and operations).

Nature of Program: Full state funding for basic education. (Legal references: Revised Code of Washington (RCW) 28A.150 and 28A.510.)

Allocation Units: Staff. Certificated instructional, certificated administrative, and classified.

Local Fiscal Capacity: Certain local and federal revenue is equalized and used to fund basic education. Such revenue amounts to less than one percent of total funds provided.

How Formula Operates: The basic education allocation formula uses each school district's full time equivalent (FTE) basic education student enrollment data to calculate: (1) basic education certificated instructional staff formula units, (2) basic education certificated administrative staff formula units, and (3) basic education classified staff formula units. These staff formula units are then multiplied by the district's state-recognized basic education salary and benefits level to generate the district's allotment for basic education staff formula unit salaries. Allocations for nonemployee related costs (e.g., books, supplies, heat) and substitute teachers are also made to each district.

1. *Certificated Instructional Staff Formula Units.* The number of basic education certificated instructional staff (BECIS) formula units generated per 1,000 FTE students varied in 1993-94 by program (regular education, vocational education, and skills centers) and — within the regular education program — by grade level (K-3 and 4-12). In the regular education program, school districts were funded at 46 BECIS formula units per 1,000 FTE students enrolled in grades 4-12. Allocations for BECIS formula units in grades K-3 depended upon the actual basic education instructional staff-to-student ratio maintained by the district in these four grades. School districts with actual 1993-94 basic education instructional staff-to-student ratios below 49 per 1,000 were funded for 49 BECIS formula units per 1,000 FTE K-3 students enrolled; districts with actual 1993-94 ratios between 49 and 54.3 per 1,000 were funded at the actual ratio; districts with actual 1993-94 ratios at or above 54.3 per 1,000 were funded at 54.3 BECIS formula units per 1,000 FTE K-3 students enrolled; districts with actual 1993-94 ratios at or above 51 per 1,000 could use a maximum of 1.3 BECIS formula units per 1,000 FTE K-3 students to employ additional classified instructional assistants if the district's actual 1993-94 ratio of classified instructional assistants to FTE K-3 students exceeded its 1989-90 ratio by at least 1.3 units per 1,000. In the secondary vocational program, school districts were funded for 55.2 BECIS formula

units per 1,000 FTE vocational secondary students; those districts operating skills center programs (i.e., schools offering advanced vocational programs for students from a number of districts) were funded for 55.2 BECIS formula units per 1,000 FTE students enrolled in these schools.

2. *Certificated Administrative Staff Formula Units.* The number of basic education certificated administrative staff (BECAS) formula units generated per 1,000 FTE students varied in 1993-94 by program only. In the regular education program, school districts were funded for 4.0 BECAS formula units per 1,000 FTE students. In the secondary vocational program and in the skills center program, school districts were funded for 4.8 BECAS formula units per 1,000 FTE students.

3. *Classified Staff Formula Units.* School districts were funded for 16.67 basic education classified staff (BECLS) formula units per 1,000 students enrolled in regular education, secondary vocational, and skills center programs during 1993-94.

To determine each school district's allotment for formula unit salaries, its total number of BECIS formula units is multiplied by the district's state-determined salary and fringe benefits level for basic education certificated instructional staff, its total number of BECAS formula units is multiplied by the district's state-determined salary and fringe benefits level for basic education certificated administrative staff formula units, and its total number of BECLS formula units is multiplied by the district's state-determined salary and fringe benefits level for basic education classified staff formula units.

In 262 of the 296 school districts, the state determines the BECIS formula unit salary level by using a statewide salary allocation schedule to generate an amount for each of the district's BECIS formula units, based on each district's actual BECIS education and experience. The BECIS formula unit salary levels in the other 34 districts are temporarily grandfathered with average salary levels that are between 0.07 percent and 6.3 percent higher than the amount that would be generated by the statewide salary allocation schedule. The state legislature has set unique BECAS and BECLS formula salary allocation levels for each school district, with salary increases allocated as a flat dollar amount per formula unit. This provides a higher percentage BECAS and BECLS salary increase to school districts with lower salary levels. In all school districts, the fringe benefits levels for BECIS, BECAS, and BECLS formula units are a fixed percentage of the respective formula salary allocations.

In addition, in 1993-94, the state provided: (1) $3,813.48 per certificated and classified staff unit for insurance benefits; classified staff formula units are multiplied by 1.152 to distribute funding on the basis of 1,440 hours (8 hours times 180 days) of employment to earn 12 months of benefits; (2) $7,251 per basic education certificated staff unit for nonemployee related costs (e.g., books, supplies, heat); (3) $13,817 per secondary vocational and skills center certificated staff formula unit for nonemployee related costs; and (4) $314.40 per certificated instructional staff formula unit for substitute teachers.

State Share: The state pays almost 100 percent of the allotments.

Local Share: Less than one percent.

Weighting by Grade Level: See "How Formula Operates — Certificated instructional staff units."

Adjustments for Special Factors: Additional staff formula units are provided to school districts that: (1) operate schools that have FTE enrollments under 100 or operate "remote and necessary" K-8 schools with under 100 FTE enrollment; (2) operate "remote and necessary" schools having grades 9-12 FTE enrollment under 25; (3) operate no high schools and have total FTE district enrollments between 50 and 180; or (4) operate not more than two high schools with total grades 9-12 FTE enrollments under 300 in each high school (alternative schools are excluded). Additional allocations are also provided to any school district with at least 250 students that experiences an enrollment increase of more than five percent in any calendar month during the period September through May.

Aid Distribution Schedule: The state disperses aid payments to school districts on the following schedule:

Month	*% of Total Aid Dispersed*
September	9.0%
October	9.0%
November	5.5%
December	9.0%
January	9.0%
February	9.0%
March	9.0%
April	9.0%
May	5.5%
June	6.0%
July	10.0%
August	10.0%

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $152.6 million (4.0% of total state school aid).

Description: Each school district electing to provide student transportation to and from school receives an allocation that is intended to fully fund transportation on school buses or contracted transit for all eligible students who actually ride the bus. The basic allocation formula is based on (1) the number of students transported; (2) the distance from the bus stop to the school (measured along a straight line between the two points); (3) a minimum funding level for school districts that cannot achieve cost-effective bus operation due to reasons beyond their control; (4) adjustments for bus routes that serve the handicapped; (5) adjustments for small fleets (10 buses or less); and (6) adjustments for special types of transportation vehicles. Excluded from allocation formula calculations are field trips, extended day, or activity runs and extracurricular transportation (RCW 28A.41 and 28A.24).

The state also supports the purchase of new school buses and the rebuilding of existing buses. Beginning in September 1982, each bus has been placed on a depreciation schedule that generates an annual state payment to the district equal to a fraction of the bus's value. The schedule is designed to provide the district with sufficient funds to replace these buses when they reach the end of their useful lifetimes (RCW 28A.41 and 76.12).

State Share: 100 percent of the formula-generated allocation — the state is required to fully fund transportation costs that are beyond the control of the district (Seattle School District v. State, 1983). In 1993-94, state allocations for pupil transportation covered 69.6 percent of pupil transportation net operating expenditures ($152.6 million of $219.3 million).

Local Share: Local districts receive (if positive) or pay (if negative) the difference between the amount allocated by the state formula or bus depreciation schedule and the actual expenditures incurred in providing student transportation or buying new school buses.

Extent of Participation: 293 of 296 districts.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Funding in 1993-94: $192.4 million (5.1% of total state school aid).

The State Board of Education administers the school construction assistance program under statutory authority in Chapters 28A.515 and 28A.525 RCW. Since the program began in 1947, over $1 billion in state revenues have been allocated to local school building projects.

Since 1965, state revenues have come from a constitutionally dedicated source, the Common School Construction Fund. These revenues have come from the sale of renewable resources, primarily timber, from state school lands set aside to fund education by the Enabling Act of 1889. The 1965 funding change allows the sale of bond issues when there are insufficient monies in the Common School Construction Fund to meet authorized appropriations. Such bonds are not a general obligation of the state, but are payable solely from interest earned on the Permanent Common School Fund. Beginning in 1990, a state General Fund appropriation to the School Construction Fund has been added by the state legislature. These appropriations stemmed from revenue generated by the sale of general obligation bonds and common school property transfer transactions.

Description: Funding for capital projects is generated primarily through bond sales by local school districts, investment earnings on the proceeds from these sales, and through a state matching program for school construction and modernization.

The amount of state aid that a district is entitled to is determined according to a statutory formula. The formula establishes a relationship between the adjusted assessed valuation per pupil in the individual district and the statewide adjusted assessed valuation per pupil, thus in effect measuring the district's wealth per pupil. The resulting distribution pattern provides state assistance on building projects from a hypothetical maximum of 100 percent of the cost in the least wealthy districts to a low of 20 percent in the wealthiest districts. Additional percentage points to a maximum of 20 percent are provided to districts that have experienced growth during the latest three-year period computed as one percent additional for each one percent of growth.

Districts qualify for state aid on two bases. The first is need, as expressed by unhoused pupils (usually resulting from enrollment growth). If a district can document a need based on program or facility condition, and the facility is at least 20 years old, it can also qualify for assistance on a modernization project. Second, districts must have authorized, by bond issue or a building fund excess levy, other capital revenue sources, or a combination of revenue sources, sufficient local funding to cover their share of the cost of the project(s). State Board of Education school construction standards, by statute, require a minimum bonded indebtedness or a combination of authorized bond issues and building fund levies equal to 2.5 percent of the assessed valuation in the school district at the time of allocation of the matching funds. The requirement has been waived in the past due to record high property assessment levels.

If state aid is insufficient to met local school district requests, a priority system is imposed. A priority system has been imposed since 1984 and was last amended in 1991. The key element of the existing system is that it uses a single scale of values and ranks both growth related projects (new buildings and additions needed to expand capacity) and condition related projects (modernization, replacement of condemned facilities, and new construction in lieu of modernization) within the same system. The total possible points that can be received by a growth-related project is 90 while 75 is the maximum a condition-related project can receive. Up to five points can be earned by districts that have adopted a modified school calendar or schedule that enables more students to use school buildings each year.

State Share: The state funding formula for school construction projects is designed to provide a district whose assessed property valuation per pupil is equal to the state average with state support for 50 percent of eligible construction costs.

Local Share: Local districts are responsible for the difference between the amount generated by the state matching formula and the actual expenditures incurred. Total costs, including site acquisition, for school construction and modernization in 1993-94 were $749.7 million (includes state share).

Extent of Participation: All districts participate.

V. TEACHER RETIREMENT

Funding in 1993-94: State formulae fully fund the employers' contribution to the Teacher Retirement System for all state-funded staff formula units.

Description: As explained in Section II — Basic Support Programs and Section VI — Special Education, the state allocation formulae convert each school district's enrollment data into state-funded staff formula units that are then multiplied by the district's state-recognized salary level to generate the district's allotment for staff formula unit salaries. To provide the employers' share of retirement system contributions for state-funded formula salary allocations, both allocation formulas then multiply the district's formula salary allotments for certificated staff by 13 percent. School districts are responsible for the employers' share of retirement system contributions for any staff salaries not funded by the state formulae or federal grants. Employee contributions vary depending upon retirement plan (employees entering state employment after October 1977 are in a separate plan).

In a similar manner, state formulae provide the employers' share of social security tax payments (e.g., the district's allotment for staff formula unit salaries is multiplied by 7.65%).

State Share: State formulae fully fund the employers' contribution to the Teacher Retirement System for all state-funded staff formula units.

Local Share: Local districts are responsible for the difference between the actual employers' contribution and the amount generated by the state allocation formulae and federal grants.

Extent of Participation: All districts participate.

VI. SPECIAL EDUCATION

Funding in 1993-94: $421.8 million (11.2% of total state school aid).

Description: The special education allocation formula uses each school district's special education student headcount enrollment data to calculate (1) special education certificated instructional staff (SECIS) formula units, (2) special education certificated administrative staff (SECAS) formula units, and (3) special education classified staff (SECLS) formula units. These staff formula units are then multiplied by the district's state-recognized salary and benefits level for special education staff formula units to generate the district's allotment for special education staff formula unit salaries. Allocations for nonemployee related costs (e.g., books, supplies, heat) and substitute teachers are also made to each district.

The number of staff formula units generated per 1,000 students varies by 14 handicapping conditions:

Handicapping Condition	*SECIS*	*SECA*	*SSECLS*
Preschool Handicapped	96.45	3.22	47.06
Behaviorally Disordered	95.89	3.20	34.56
Orthopedically Impaired	132.82	4.43	49.08
Health Impaired	95.33	3.18	34.34
Specific Learning Disabled	20.32-55.05*	0.68-1.84*	6.66-18.04*
Mentally Retarded Mild	85.57	2.85	30.50
Mentally Retarded Moderate	141.15	4.71	52.36
Mentally Retarded Severe	181.70	6.06	68.31
Multihandicapped	191.86	6.40	72.31
Deaf	162.02	5.40	60.57
Hard of Hearing	143.26	4.78	53.19
Visually Handicapped	112.61	3.754	1.13
Deaf Blind	201.08	6.70	75.93
Communication Disordered	22.22	0.74	0.74

* School districts with: (1) 4.0% or less of their enrollment reported as specific learning disabled generate the maximum number of staff formula units; (2) 15.0% or more of their enrollment reported as specific learning disabled generate the minimum number of staff formula units; and (3) between 4.0% and 15.0% of their enrollment reported as specific learning disabled generate staff formula units that vary inversely with this percentage.

To determine each school district's staff formula unit allocation, its total numbers of SECIS formula units, SECAS formula units, and SECLS formula units are multiplied by the district's state-determined salary and fringe benefits level for SECIS, SECAS, and SECLS formula units, respectively. Special education salary and fringe benefits levels are determined by the same process used in basic education (see Section II). In addition, in 1993-94, the state provided: (1) $3,813.48 per certificated and classified staff formula unit for insurance benefits; (2) $848 per FTE special education student for nonemployee related costs (e.g., books, supplies, heat); and (3) $341 per SECIS formula unit for substitute teachers (RCW 28A.150 and 28A.155).

State Share: 100 percent of the formula-generated allocation — the state is required to fully fund a special education program for handicapped children (*Seattle School District v. State*, 1983). State funding for special education programs is subject to recovery if unexpended during the year in which it is allocated. On the basis of the formula used by the state to measure compliance with this regulation, state funding for special education programs accounted for 79.1 percent of net special education program expenditures ($421.8 million of $533.3 million).

Local Share: Local districts fund the difference between the formula-generated allocation and actual expenditures for state-funded special education programs.

Extent of Participation: Most districts participate either individually or as part of a cooperative.

VII. COMPENSATORY EDUCATION

Funding in 1993-94: $53 million (1.4 % of total state school aid).

Description: The Learning Assistance Program (LAP) provides funding to a school district based upon the percentage of the district's students scoring in the bottom quartile on the state's 4th grade and 8th grade basic skills test. For the K-6 component of the program, the most recent five year weighted average percentage of the district's students scoring in the bottom quartile of the state's 4th grade basic skills test is multiplied by the district's current FTE enrollment in grades K-6 to determine the maximum number of LAP students in a district. This figure is lowered by the number of students aged 6-11 living in the district who are eligible for funding as "specific learning disabled" students. The same process is used for the grade 7-9 component of the program, except that the district's average performance on the state's 8th grade basic skills test is multiplied by the district's current FTE enrollment in grades 7-9, with the number of "specific learning disabled" students aged 12 through 14 living in the district being subtracted from this total. The number of students scoring in the lowest quartile in 1991 and 1992 were multiplied by 86 percent in determining the 5-year weighted average percentages for the 4th and 8th grade basic skills tests. In 1993-94, the allocation formula provided $470 per LAP student (RCW 28A.150 and 28A.165).

State Share: 100 percent of the formula-generated allocation — the state is required to fully fund a remedial assistance program (*Seattle School District* v. *State*, 1983). In 1993-94, the LAP program allocation covered 73.6 percent of net LAP program expenditures ($53 million of $72 million).

Local Share: Local districts are responsible for the difference between the formula- generated allocation and actual expenditures for state-funded compensatory education programs.

Extent of Participation: 284 of 296 districts.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1993-94: $4.1 million (less than 1.0% of total state school aid).

Description: Funding for highly capable student programs is provided for 1.5 percent of a district's current FTE enrollment. In 1993-94, the allocation formula provided school districts with highly capable student programs $330.81 per funded student (RCW 28A.150 and 28A.185).

State Share: The state is not required to provide financial assistance for gifted programs (*Seattle School District* v. *State*, 1983). In 1993-94, the allocation for highly capable students provided 34.2 percent of net gifted and talented program expenditures ($4.1 million of $12 million).

Local Share: Local districts fund the difference between the formula-generated allocation and actual expenditures for gifted and talented programs. Many districts use state block grant money to help fund this program.

Extent of Participation: 257 of 296 districts.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $22.7 million (less than 1.0% of total state school aid).

Description: In 1993-94, the allocation formula provided school districts with $628.90 per eligible student for transitional bilingual education (RCW 28A.150 and 28A.180).

State Share: 100 percent of the formula-generated allocation — the state is required to fully fund a bilingual education program (*Seattle School District* v. *State*, 1983). In 1993-94, the allocation for transitional bilingual students provided 50.8 percent of net transitional bilingual program expenditures ($22.7 million of $44.7 million).

Local Share: Local districts fund the difference between the formula-generated allocation and actual expenditures for transitional bilingual programs.

Extent of Participation: 180 of 296 districts.

X. OTHER CATEGORICAL PROGRAMS

Local Effort Assistance

Funding in 1993-94: $76.4 million (2.0 % of total state school aid).

Description: Local effort assistance provides a guaranteed tax base for school districts having a special levy with property tax rates above the state average. To be eligible for local effort assistance, the tax rate a school district would be required to levy to collect an amount equal to 12 percent of its levy base (most of prior year state and federal revenue) must be greater than the tax rate that would be needed to raise 12 percent of statewide levy base if the statewide average assessed valuation was used as the tax base (all property valuations are adjusted to 100 percent of market value — see Section XIII — Local School Revenue — Special levy property tax"). The state provides the district with the difference between the amount raised by the lower statewide rate and 12 percent rate used by the district. Districts with approved local school district special levy amounts that are less than the district's share of the 12 percent levy amount receive a pro-rata portion of the maximum local effort assistance amount (RCW 84.52 and 28A.500).

State Share: 100 percent.

Local Share: None.

Extent of Participation: 209 of 296 districts.

Local Education Program Enhancement

Funding in 1993-94: $22.9 million (less than 1.0% of total state school aid).

Description: Local education program enhancement funding is a state block grant that must be expended to meet educational needs the school district has identified. In 1993-94, the state provided $26.30 per full-time equivalent

(FTE) student to school districts enrolling more than 100 FTE students, with school districts enrolling less than 100 FTE students receiving funding for a minimum of 60 FTE students in grades K-6, 20 FTE students in grades 7 and 8, and 60 FTE students in grades 9-12.

State Share: State funding for local education program enhancement is subject to recovery if unexpended during the year in which it is allocated. State funding for local education program enhancement accounted for 64.9 percent of actual local education program enhancement expenditures ($22.9 million of $35.3 million).

Local Share: Local districts are responsible for the difference between the formula- generated allocation and actual expenditures for local education program enhancement.

Extent of Participation: 293 of 296 districts.

Institutions, Centers, and Homes for the Delinquent

Funding in 1993-94: $12.1 million (less than 1.0% of total state school aid).

Description: A year-round, 220-day educational program is provided by local school districts for children in state residential facilities. The allocation formula converts each facility's student enrollment data into (1) basic education certificated instructional staff formula units, (2) basic education certificated administrative staff formula units, and (3) basic education classified staff formula units in a manner similar to the basic education allocation formula, but with more staff provided per student. In addition, the salary and benefits level used to generate the district's allotment for staff formula units salaries is set 22.2 percent higher than the district's average in order to provide for the longer school year (RCW 28A.190).

State Share: 100 percent of the formula-generated allocation.

Local Share: Local districts are not responsible for any program expenditures.

Extent of Participation: 26 of 296 districts.

Traffic Safety Education

Funding in 1993-94: $7.5 million (less than 1.0% of total state school aid).

Description: In 1993-94, the allocation formula provided school districts with $137.16 per student completing a traffic safety education program. An additional $66.81 was provided for low-income students completing the program if the district reduced the student's fee (RCW 28A.220 and 46.81).

State Share: State funding for traffic safety education programs is subject to recovery if unexpended during the year in which it is allocated. State funding for traffic safety education programs accounted for 49 percent of actual traffic safety education expenditures ($7.5 million of $15.3 million).

Local Share: Local districts are responsible for the difference between the formula- generated allocation and actual expenditures for traffic safety education. Most of the local funding comes from student fees.

Extent of Participation: 245 of 296 districts.

School Food Service

Funding in 1993-94: $5.2 million (less than 1.0% of total state school aid).

Description: In 1993-94, the allocation formula provided school districts with $0.045 per lunch and $0.1836 per free and reduced price breakfast served to students under the National School Lunch Program.

State Share: The state is not required to provide financial assistance for school food service programs (*Seattle School District* v. *State,* 1983). The National School Lunch Program, though, requires the state to provide at least $3 million in funding for the program.

Local Share: Local districts are responsible for the difference between the amount provided by federal allocations, state allocations, and student fees and the actual expenditures for school lunch programs. In 1993-94, the local share of school food service expenditures amounted to 48.9 percent ($86.9 million of $177.7 million).

Extent of Participation: 271 of 296 districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

See Section X — Other Categorical Programs — Local education program enhancement for early childhood education funding; state aid for the education of handicapped preschool students is provided through the special education allocation formula.

XIII. LOCAL SCHOOL REVENUE

Special Levy Property Tax

Funding in 1993-94: $669.8 million for maintenance and operations (80.5% of total local school revenue).

Description: The state legislature has given school districts authority to levy local property taxes — what are known as special levies — to fund programs, activities, and support services that the state is not required to fund under its constitutional obligation (*Seattle School District* v. *State,* 1978). The special levy property tax is the only local tax used to fund schools and four types of levies exist: (1) maintenance and operations levies ($669.8 million) are one or two year levies used for the day-to-day operations of the school district; (2) debt service levies ($352.8 million) are multi-year levies used to pay principal and interest on general obligation bonds sold to finance school construction and remodeling; (3) capital projects levies ($43.7 million) are one to six year levies used to pay for school construction or remodeling; and (4) transportation vehicle levies ($8.3 million) are one or two year levies used to pay for school buses or other school transportation needs. All taxable property must be valued at 100 percent of its market value.

All timber growing on privately owned land is exempt from property taxes. In lieu of the property tax, private timber is subject to an excise tax at the time it is harvested; tax revenues on private timber are distributed to the local taxing districts containing harvestable timber. In 1993-94, this tax generated $6.7 million for maintenance and operations of eligible school districts, which was applied towards the districts' local special levy amounts, thereby lowering the special levy property tax rates in these districts.

Extent of Participation: Maintenance and operations levies, 259 of 296 districts.

Local Source Non-Tax Revenue

Funding in 1993-94: $161 million (19.4% of total local school revenue).

Description: The primary sources of local non-tax revenue are investment earnings and food service fees. By investing the proceeds of school funding allocation payments in U.S. government securities for the period of time before payments must be made to contractors, suppliers, and district employees, school districts generated $13.6 million in interest during 1993-94. Student fees for school lunches, breakfasts, and milk produced $70.7 million in 1993-94.

Extent of Participation: All districts generate local non-tax revenue.

XIV. TAX AND SPENDING LIMITS

State Limits on Expenditures

In 1993, voters approved Initiative 601 which, beginning in 1995, places a limit on Washington's operating budget. That limit can be increased at a rate over the previous year not greater than the sum of population growth and inflation. If state revenues exceed the expenditure limit, the excess will be deposited into an emergency reserve fund. If and when that fund exceeds five percent of general fund state revenues, the excess will be deposited into a newly created education construction fund. To raise state general fund revenue or make revenue-neutral tax shifts within the expenditure limit requires two-thirds vote of both houses. To exceed the expenditure limit, both two-thirds vote of both houses and the majority vote of the people at a state general election is required.

Limitations on Regular Property Tax Levies

The Washington Constitution (Article VII, Section 2) limits the *regular* property taxes paid by any taxpayer to one percent of the market value (school district special levies are exempt). Since 1975, the state legislature has further controlled regular property taxes by setting the authorized limit (0.915 percent) below the constitutional limit. In addition, the state legislature curbs the growth of any taxing district's regular property tax revenue to no more than six percent above the highest level reached in the last three years, exclusive of new construction.

Limitations on Special Levy Property Taxes

The state legislature limits voter-approved school district maintenance and operations (M&O) special levies to a fixed percentage of state and federal revenues received in the prior school year. The original "levy lid," passed in 1977, sought to limit a school district's M&O special levy authority to ten percent of each school district's state basic education allocation received in the prior school year. This goal has never been reached and the legislature has amended the law eight times to (1) expand the base on which the levy lid is calculated to include most state and federal revenues, (2) further expand this base by multiplying the prior school year's revenue by the current year's percentage increase in state basic education allocations per pupil, (3) increase every school district's M&O special levy authority to at least 20 percent, (4) lower every school district's M&O special levy authority to a maximum of 30 percent, (5) reduce a school district's M&O special levy authority by the amount of its maximum local effort assistance (see "*Other categorical programs-Local effort assistance*"), and (6) reduce M&O special levies in school districts with levy authority between 20 percent and 30 percent only when the legislature provides increases in funding identified in the state budget as "levy reduction funds". In 1993, many districts faced a situation where voters had approved levies in excess of the amount provided by law and the Legislature granted a temporary four percent increase in the amount districts could levy for collection in calendar years 1994 and 1995.

Provisions for Voter Approval

Local school boards may ask voters to impose a special levy property tax to generate a specific dollar amount (see Special Levy Property Tax above for an explanation of the four types of special levies). Approval requires (1) voter turnout equal to at least 40 percent of the previous general election total in the district (validation), and (2) a favorable margin of at least 60 percent of the votes cast on the special levy proposal (passage). The state's voters passed a constitutional amendment granting an exception to the validation rule in 1973 for maintenance and operations (M&O) and vehicle transportation levies only. If the voter turnout in these two types of levy elections does not equal 40 percent of the previous general election total, the measure can be validated if the number of "yes" votes cast on the proposition is equal to at least 24 percent (i.e., 60% multiplied by 40%) of the total votes cast in the previous general election. This exception to the validation requirement was added to discourage "no" voters from attempting to defeat an M&O or transportation vehicle levy by failing to vote. If the voters do not pass the first special levy request, a school district may submit it to the voters a second and final time during the same levy election year (calendar year for bond levies, 365-day year for other levies).

XV. EARMARKED STATE REVENUE

The Common School Construction Fund consists of proceeds from the sale of renewable resources from the 1.3 million acres set aside to fund education at the time of Washington's admission to the union in 1889. A state property tax for schools (based on $3.60 per $1,000 assessed valuation adjusted by the county indicated ratio) is deposited into the state's general fund for the support of schools.

XVI. SPECIAL TOPICS

None.

WEST VIRGINIA

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I. GENERAL BACKGROUND

State

- In 1963, the state share of state-local public education revenue was 50.74 percent. Over the next ten years (1963 to 1973), the state share fluctuated between 46 and 52 percent; increased to 60.69 percent by 1983; reached 66.43 percent in 1992; and 66.64 percent in 1993.

- The current Public School Support plan was first established in 1939 and amended over the years. It was rewritten in 1971 and amended in 1973, 1981, 1982, 1985, 1988, 1990, and every year since 1990.

- The basic foundation program consists of the computed costs for the school districts in aggregate for the following seven categories: (1) professional educators, (2) service personnel, (3) fixed charges, (4) transportation costs, (5) administrative costs, (6) other current expenses, substitute employees, and faculty senates, and (7) improvement of instructional programs.

- The state constitution of 1863 stated that "The Legislature shall provide, as soon as practicable, for the establishment of a thorough and efficient system of free schools...." In 1933, the implementation of the county unit of local government abolished 398 school districts and substituted 55 county-school districts and 55 five-member boards of education. The school districts are contiguous with the 55 county political boundaries. On January 19, 1934 — The Enabling Act — a tax limitation amendment established the maximum tax rates on four classes of property.

- In 1979, the West Virginia supreme court reversed the trial court's dismissal of the plaintiffs in *Pauley* v. *Bailey* and remanded the case to the circuit court. In 1982, the circuit court of Kanawha County found the public school finance system of West Virginia unconstitutional. The court stated that the system did not provide equitable and adequate funding for a thorough and efficient system of education; the state failed to provide adequate funding for school construction; taxation and assessment of property was not equal or uniform; the court ordered the executive and legislative branches to develop a master plan to create an equitable, high-quality education system. In 1983, a Master Plan for Education was created.

- In December 1994, a Motion for Enforcement of Judgement, a motion to reopen the case of *Pauley* v. *Bailey*, was filed in the Circuit Court of Kanawha County, West Virginia. The motion asserts that the state has failed to implement the "Master Plan" to reform West Virginia's education system. It calls on the court to set a timetable for implementation and appoint a commissioner to oversee it.
- Beginning July 1, 1993 and thereafter, the assessed valuation of all property was required to be 60 percent of the true and actual market value. The 60 percent was achieved over a three year phase-in period during which all properties in the state were re-evaluated for property tax purposes.

Local

- West Virginia has 55 school districts that are contiguous with county political boundaries. All 55 districts are fiscally independent.
- In 1993-94, the state had 654 elementary schools and 247 secondary schools in the 55 school districts with a net enrollment of 307,167.
- Property tax is the primary source of local district revenue.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$1,107 million
Grants in aid	774 million	
Teacher retirement contributions	155 million	
FICA	62 million	
Public Employees Insurance (PEIA)	112 million	
Regional Educational Service Agencies	4 million	
Total Local School Revenue		$458 million
Property tax revenue*	383 million	
Other local source tax revenue	0	
Local source non-tax revenue	75 million	
Total Combined State and Local School Revenue		$1,565 million
State-Financed Property Tax Credits Attributable to School Taxes	0	

* Regular Levy (Mandatory): $200 million; Excess Levy Revenue (By Vote): $183 million

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $1,107.0 million (100% of total state school aid).

Nature of Program: Foundation Program.

Allocation Units: Personnel. Based on certified and non-certified personnel per 1,000 students. In 1993-94, 74.5 professional personnel per 1,000 net enrollment (53.5 per 1,000 adjusted enrollment) and 43.75 service personnel per 1,000 net enrollment (34 per 1,000 adjusted enrollment.) The allowance is limited to whichever ratio (net or adjusted enrollment) is less.

Local Fiscal Capacity: Assessed property valued at 60 percent of market value.

How Formula Operates:

A. *State Share of the Basic Foundation Program.*

The basic foundation program consists of the computed costs for the counties in aggregate for the following seven categories:

1. Foundation allowance for professional educators.

   The foundation program provides to each county board the amount of funds required to pay the state minimum required salaries for professional educators. The professional educators allowance is limited to 74.5 personnel per 1,000 students in net enrollment for the 1993-94 school year and 74 personnel per 1,000 net enrollment for the 1994-95 year, and for each year thereafter.

   Summary: 74.5 professional educators / 1,000 net enrollment times the minimum required salaries for professional educators.

2. Foundation allowance for service personnel.

   The amount of funds required to pay the annual state minimum required salaries for service personnel, limited to 43.75 personnel per 1,000 students in net enrollment for 1993-94 school year and 43.5 for the 1994-95 year, and for each year thereafter.

   Summary: 43.75 service personnel / 1,000 net enrollment times the minimum required salaries for service personnel.

3. Foundation allowance for fixed charges.

   Total allowance for salaries times the following percentages:

Teachers Retirement System	15.00 percent
Social Security	7.65 percent
Workers' Compensation	0.99 percent
Unemployment Compensation	0.04 percent

4. Foundation allowance for transportation.
   - **(a)** 80 percent of the transportation costs for maintenance, operation and related expenses, exclusive of all salaries;
   - **(b)** 100 percent of the insurance costs on buses, buildings and equipment used in transportation;
   - **(c)** 10 percent of the current replacement value of each county board's bus fleet;
   - **(d)** 80 percent of the cost of contracted and public transportation services;
   - **(e)** Aid paid to students in lieu of transportation based on the state average amount paid per pupil; and
   - **(f)** 90 percent of the transportation costs for operations and related expenses, exclusive of salaries and maintenance, incurred in transporting students to and from multi-county vocational centers.
5. Foundation allowance for administrative cost.
   - **(a)** $150 times the number of professional educators authorized in Step 1. This allowance is distributed to each county board in equal amounts.
   - **(b)** Foundation allowance for Regional Educational Service Agencies (RESAs). Step 5 also provides an allowance for the regional education service agencies (RESAs) equal to .63 percent of the allowance for professional educator salaries in Step 1, except that the 1993-94 year only, the allowance for RESAs was reduced to .55 percent. According to State Board Policy, the allowance is distributed on the following basis: 60 percent of the allowance is distributed equally among the eight RESAs and the remaining 40 percent is distributed to each RESA in accordance to the net enrollment of the county boards served by the RESA.
6. Foundation allowance for other current expenses and substitute employee salaries.

The sum of the following may not exceed the previous year's allowance by more than 104 percent.

- **(a)** Current expense: 10 percent of allowance for salaries.
- **(b)** Substitute salaries for: professional educators = 2.5 percent salary allowance for professional educators; service personnel = 2.5 percent salary allowance for service personnel.
- **(c)** Allowance for Faculty Senates. Academic materials, supplies, and equipment; $200 times the number of professional instructional personnel employed. Allocated to each faculty senate.

7. Foundation allowance to improve instructional programs.

For the 1993-94 school year only, $32.5 million allocated in the following manner:

- **(a)** $150,000 to each county school board;
- **(b)** remaining amount distributed proportionally on the basis of the average daily attendance for the preceding year and the second month net enrollment. $35.4 million (of which, $23.4 million was included inside the foundation formula for debt service) provided for the School Building Authority.

8. Total Basic Foundation Allowance.

The total basic foundation program allowance for the state is the sum of the above seven allowances (Regional Education Service Agency Excluded).

B. *Local Share of the Basic Foundation Program.*

The local share of the basic foundation program is calculated by the State Department of Education in the following manner and is subtracted from the sum of the seven allowances.

1. Taxable Assessed Property equals the Assessed Property Values less Homestead Exemption. Assessment must be 60 percent of the properties' true and actual values.

2. The legislature sets the property tax rates for the school boards. The maximum rates per $100 of assessed property are: Class I, 22.95 cents; Class II, 45.90 cents; Class III, 91.80 cents; and Class IV, 91.80 cents. In 1993-94, the levy rates were set at 21.84 cents for Class I property.

3. Beginning with the 1993-94 year, each county's local share is to be calculated by multiplying the assessed valuation of all property in the county for the current fiscal year as certified by the assessor by 98 percent of the regular levy rates for the year as set by the Legislature and then deducting five percent as an allowance for discounts, exonerations, delinquencies and the like, and this amount is to be reduced further by the amount to be paid to the Assessor's Valuation Fund at two percent.

C. *Allowance for increased enrollment.*

Each county that has an increase in net enrollment is to receive an allocation equal to the county's average per net pupil total state aid multiplied by the increase in net enrollment.

D. *Public Employees Insurance Premium Costs.*

Although not included within the Public School Support Program, a legislative appropriation is provided to pay the county boards of education public employees insurance premium costs and such appropriation is allocated and distributed to each board on the basis of projected premium costs for eligible participating employees.

E. *Additional Local Revenue: Excess Levy Revenue.*

Additional Local Revenue can be generated above the local share funds by a vote of the people. The excess levy revenue is not included as part of the local share of the Basic Foundation Program and it is not equalized.

For a school district to have excess levy funds, the excess levy tax must be approved by a simple majority of the votes cast for and against the excess tax levy. In 1993-94, 41 of the 55 counties had excess levies in effect generating aggregate net revenues of approximately $182.7 million.

State Share: See A above.

Local Share: See B and E above.

Weighting Procedures: A weighting procedure is based on Adjusted Enrollment which equals net enrollment (head count) for grades K-12, plus twice the number of pupils enrolled for special education, including exceptional gifted, plus the number of pupils in grades 9-12 enrolled for honors, advanced placement, and gifted programs. No pupil may be counted more than three times for the purpose of determining adjusted enrollment.

Adjustments for Special Factors: See C above.

Aid Distribution Schedule: Basic state aid is distributed to the local districts by electronic funds transfer according to the following monthly distribution schedule. Distributions are made on the 15th, 20th, 25th, and 30th of each month with 30 percent of the monthly allocation distribution on the 15th; 40 percent on the 20th; 20 percent on the 25th; and ten percent on the 30th.

Jul	6.79%	Oct	7.30%	Jan	7.92%	Apr	11.32%
Aug	6.79%	Nov	7.30%	Feb	7.92%	May	11.32%
Sep	6.79%	Dec	7.30%	Mar	7.92%	Jun	11.33%

Districts Off Formula: None.

III. TRANSPORTATION

Funding in 1993-94: $25.7 million (2.3% of total state school aid).

Description: Total Transportation funding is determined in Step 4 of the foundation support program (see Section II.) Total Transportation becomes part of the basic support program aggregate amount that local share is subtracted from to determine state aid.

During the 1993-94 school year, West Virginia's school transportation personnel continued to provide dependable, economical, and safe transportation to and from school for 245,000 West Virginia students on 2,950 buses in the 55 counties. These buses traveled 40,740,034 miles during the year while providing students transportation to curricular, cocurricular, and extra-curricular programs and events.

West Virginia continued to be a leader in the use of alternate fuel powered buses. Compressed natural gas powered school buses are being tested and evaluated while providing data to a national test site located at West Virginia University.

Extent of Participation: All districts. About 75 percent of the public school enrollment in West Virginia is bussed to and from school. West Virginia is the second most rural state in the United States and the only state completely located in Appalachia.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital Outlay

School Building Authority (SBA)

Funding in 1993-94: $35.4 million (3.2% of total state school aid).

Description: The School Building Authority (SBA) was established in 1988 for the purpose of providing state funds for the construction and maintenance of school facilities to meet the educational needs of the people of West Virginia in an efficient and economical manner.

Since the SBA has been established, it has provided $298.3 million for school construction with 22 new schools having been opened. Currently, an additional 21 schools are in planning or under construction.

On March 18, 1994, legislation was passed that included dedicating up to $18 million in net profits of the lottery annually (over a ten year period) to fund bond issues in an aggregate principal amount not to exceed $160 million. The Authority anticipates issuance of bonds under this new funding mechanism during fiscal year 1994-95.

Prior to the enactment of this statute, in the lawsuit *Winkler* v. *State of WV School Building Authority*, the Supreme Court of Appeals of West Virginia declared unconstitutional the statutory scheme whereby the legislature appropriated funds from the general revenue fund for the purpose of retiring the bonds previously issued by the Authority. The decision, while not retroactive in its application, precluded the use of such a funding mechanism for all new bond issues.

Subsequently, in *State ex rel. Marockie* v. *Wagoner*, the Supreme Court deemed unconstitutional a statutory amendment which provided a portion of the sales tax to be used to retire bonds issued. The Court held that use of an existing revenue source (i.e., sales tax) which had first been deposited into the general revenue fund, constituted an impermissible use of such tax revenues.

In the second case styled *State ex rel. Marockie* v. *Wagoner*, the Court upheld the constitutionality of using a portion of the lottery profits as a funding mechanism.

In December 1994, the SBA approved construction of new buildings, additions and renovations of buildings in 22 of the 55 counties for a total cost of $137.9 million.

Debt Service

Total Debt Service Fund 1993-94: $38.1 million (3.4% of total state school aid).

Extent of Participation: 27 of the 55 school districts have a debt service fund.

See Section on School Building Authority (SBA)

Local Capital Project Financing

Bond Construction: As of June 30, 1994 $230.1 million of bonds outstanding.

Extent of Participation: 25 of the 55 school districts have bond levies.

See Section on School Building Authority (SBA)

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993-94: $154.9 million (14.0% of total state school aid).

Description: The Teacher Retirement System is funded through the state's basic foundation program at the rate of 15 percent of the total allowance for salaries (including salary equity appropriations and county supplements to the extent they are equal to the amount distributed for salary equity among the counties). The state actually operates two retirement systems for teachers.

(1) Teachers' Retirement System (TRS). This system is a defined benefit program covering all full-time employees (if hired before July 1, 1991) of public school districts, certain personnel of the public supported institutions of higher education, and the State Department of Education and boards of higher education. TRS funding policy provides for member contributions of six percent of annual earnings. The employer share for 1993-1994 was also six percent, but the percent is to increase 1.5 percent each year until it reaches 15 percent. There are approximately 63,000 members in the plan (24,000 retirees and beneficiaries and 39,000 active).

(2) Teachers' Defined Contribution Retirement System (TDCRS). This system covers those full-time employees hired after June 30, 1991, and former TRS plan members, who have elected to transfer into the TDCRS. Employees are required to contribute 4.5 percent of their gross compensation and the employers contribute 7.5 percent of covered members' gross compensation. There are approximately 5,700 members in the system.

Social Security

Funding in 1993-94: $62.3 million (5.6% of total state school aid).

Description: Social Security costs are addressed under Step 3 — Foundation allowance for fixed charges. The Foundation allowance for Social Security is 7.65 percent of total allowance for salaries.

State Share: Part of the Total Basic Foundation Program.

Local Share: Part of the Total Basic Foundation Program.

Extent of Participation: All 55 school districts participated.

VI. SPECIAL EDUCATION

Funding in 1993-94: $19.9 million (1.8% of total state school aid).

Description: State allocations for specific Special Education programs are not included in the Basic Education Foundation Plan.

Special Education recognition inside the Basic Education Foundation Plan is in the form of the number of students in adjusted enrollment. Certified and non-certified personnel are supported as a ratio to net enrollment or to adjusted enrollment. Adjusted enrollment is net enrollment (head count adjusted to an FTE basis) for grades K-12, plus twice the number of pupils enrolled for special education, including exceptional gifted, plus the number of pupils in grades nine through twelve enrolled for honors, advanced placement, and gifted programs. No pupil may be counted more than three times for the purpose of determining adjusted enrollment.

Aid for Exceptional Children (Aid to Counties)

County Grant Awards

Funding in 1993-94: $6.0 million (less than 1.0% of total state school aid).
$5.3 million (school age)
$0.7 million (Preschool)

Description: To provide funding that may be expended by county boards of education for the initiation and/or improvements of special education programs for school-age and preschool exceptional children.

State Share: Each school district receives a base of $30,402 plus $63.75 per exceptional student; and a base of $10,000 plus $135.35 per preschool student.

Extent of Participation: All 55 school districts participate. The number of exceptional students equals 52,172 and the number of Preschool students equals 3,587.

Regional Education Service Agency (RESA) Special Education Support

Funding in 1993-94: $0.4 million (less than 1.0% of total state school aid).

Description: To assist county school districts in the planning, implementation, and provision of special education services to exceptional children.

Extent of Participation: Eight RESAs at $50,000 per RESA.

Out-of-County Reimbursement

Funding in 1993-94: $0.4 million (less than 1.0% of total state school aid).

Description: End-of-year reimbursement — proportional-based on number of children placed, and available funding. Purpose of the fund: to provide reimbursement to counties for the provision of special education and related services to children placed in facilities operated or supported by the Department of Health and Human Resources and the Department of Corrections.

Out-of-State Instruction

Funding in 1993-94: $0.6 million (less than 1.0% of total state school aid).

Description: End-of-year reimbursement — proportional-based on number of children placed, cost of placement, and available funding. The purpose of the fund is to provide partial funding for children and youth with severe disabilities who are served in out-of-state placements.

Extent of Participation: Eight counties participating with one student from each county placed in an out-of-state facility. Amount distributed for 1993-94, $583,018. Amount distributed for 1992-93, $390,391.

Aid for Exceptional Children

State Department Administration

Funding in 1993-94: $2.0 million (less than 1.0% of total state school aid).

Description: Department of Education Personnel Salaries, Current Expenses of Department of Education Personnel, Medley Education Programs.

Special State Projects

Funding in 1993-94: $68,597 (less than 1.0% of total state school aid).

Description: Instructional Resource Center for visually impaired children at the WV Schools for the Deaf and the Blind, WV Special Olympics program, WV Advisory Council for the Education of Exceptional Children, statewide training activities, the WV Very Special Arts program, and other special projects.

Schools for the Deaf and the Blind

Funding in 1993-94: $9.3 million (less than 1.0% of total state school aid).
$7.4 General Revenue
$1.9 Other Special Revenue

Description: To operate the West Virginia Schools for the Deaf and the Blind.

VII. COMPENSATORY EDUCATION

Federally funded compensatory education programs in West Virginia operate under the Elementary and Secondary School Improvement Amendments (ESSIA). During the 1992-93 school year, $53.7 million in Chapter 1 funds were allocated to the 55 counties for programs of remediation in reading and mathematics and limited supportive elements. Approximately 30,000 public and private school students throughout the state receive these services from approximately 550 teachers and 500 teacher aids.

VIII. GIFTED AND TALENTED EDUCATION

Governor's Honors Academy

Funding in 1993-94:	$120,000	Aid for Exceptional Children
	$ 30,000	Albert Yanni Vocational Funds
	$ 30,000	State Aid

Description: All 55 county school districts are encouraged to submit names of two students who have completed their junior year in high school and meet specific qualifications. The students who are selected participate in a four week residential, intensive learning experience.

County school districts may also utilize State Aid for Exceptional Children funds for programs and services for identified gifted students. The county districts make application for these funds on an annual basis following the preparation of a needs assessment.

IX. BILINGUAL EDUCATION

There is no state aid provided for bilingual education.

X. OTHER CATEGORICAL PROGRAMS

Basic Skills/Computer Education

Funding in 1993-94: $10 million (less than 1.0% of total state school aid).

Description: To implement staff development, software, hardware, and ongoing support for K-6 program to address basic skills.

Implementation Update — November 1, 1994:

- $46.1 million allocated on a per pupil basis.
- Over $42.0 million in purchase orders have been processed.
- All elementary schools beginning with Kindergarten have student utilization.
- Over 4,000 classrooms have student utilization.
- Over 14,500 student workstations are in use with periodical increases as installations continue.
- Over 9,100 educators, representing all 55 counties, have received a minimum of three days of courseware specific, intensive "hands-on" training with many teachers having received up to seven days of training.

State Share: $10 million.

Local Share: Varies with each school district. State average per school district, $2 million.

Extent of Participation: All K-6 schools in all 55 school districts.

Comprehensive School Health State and National Training Center

Funding in 1993-94: $1.2 million (less than 1.0% of total state school aid).

Description: Three part cooperative agreement with Center for Disease Control to improve the health of school age children in West Virginia and provide training to individuals in West Virginia and across the United States. The training program focuses on how to build an infrastructure to improve school health programs.

State Share: None. All states share with grant awards to locals based on application focus.

Local Share: None

Extent of Participation: Individuals from 50 of the 55 counties in West Virginia have received training. In 1993-94, individuals from 25 states received training at the National Training Center in West Virginia.

National School Lunch Program

Funding in 1992-93: $3.5 million State and Local Funds

Description: The school lunch program provides low cost, nutritious lunches in public schools, private schools, and residential institutions. All enrolled students are eligible to participate in the nutrition program.

State Share: The state share is required by federal regulations to meet a combination of Maintenance of Effort (MOE) at the 1977 level and to match the basic subsidy at a formula generated requirement of .052598122365 per lunch served students (or approximately $3 federal to $1 state ratio for Section 4 funds with adjustment for per capita income).

Local Share: The local share is comprised of student payments for meals and adult payment for meals. This amounts to approximately $25 million annually.

Extent of Participation: All 55 school districts participate.

Technical and Adult Education

Funding in 1993-94: $12.6 million (1.1% of total state school aid).

Description: State aid is made available to the local education agencies (LEA) in order to provide for supplemental expenses such as extended employment, instructional supplies, and equipment. funds are distributed through formulas that are based upon an LEA's proportional share of the state total. For example, the formula for equipment replacement divides the total state value of the equipment inventory into the LEA's total. The resulting decimal fraction determines the LEA allocation of equipment replacement funds.

State Share: The state share is determined by legislative appropriation.

Local Share: The only local share required is a 30 percent match of allocations for contracted instruction.

Extent of Participation: All 55 school districts, 7 multi-county vocational centers, and the West Virginia Schools for the Deaf and the Blind participated during 1993-94.

Health and Developmental Screening

Funding in 1993-94: $0.12 million (less than 1.0% of total state school aid).

Description: Each West Virginia County Board of Education provides developmental screening for all children under compulsory school age upon parental request.

Extent of Participation: All 55 county school districts participate serving approximately 6,000 children.

National Geographic Alliance

Funding in 1993-94: $50,000 (less than 1.0% of total state school aid).

Description: The National Geographic Alliance is a staff development program for the purpose of expanding the teaching of and emphasizing the importance of geography.

Extent of Participation: All 55 school districts participate.

Teacher Mentorship

Funding in 1993-94: $0.26 million (less than 1.0% of total state school aid).

Description: The Teacher Mentorship program provides each new teacher to a school system a mentor to assist in the development of teaching/learning practices within each school system. This is an entitlement grant of $600.00 awarded to each of the mentors within each of the 55 counties.

Extent of Participation: All 55 school districts participate.

Statewide Testing Program

Funding in 1993-94: $0.66 million (less than 1.0% of total state school aid).

Description: The West Virginia Testing Program consists of annual: norm-referenced testing at grades 3, 6, 9, and 11; criterion reference testing grades 1 through 6; writing assessment in grades 4, 8, and 10; and National Assessment of Educational Progress (NAEP) testing within yearly specified grade(s) and content.

Extent of Participation: All 55 school districts participate in the testing programs and all children at specified grade levels participate, except NAEP.

Improving Instruction

Funding in 1993-94: $37,234 (less than 1.0% of total state school aid).

Description: The program of Improving Instruction provides staff development necessary to implement exemplary and/or innovative programs; technical assistance to schools in need of improvement; and special in-service programs as identified.

Extent of Participation: Teachers and administrators in all counties are notified of staff development programs and invited to participate. Schools in need of specific technical assistance are identified via the School Accreditation process.

Other Categorical Programs

Medicaid

Funding in 1992-93: $0.61 million (less than 1.0% of total state school aid).

Description: West Virginia is the first state given permission to use the free and reduced lunch form to identify families who may be eligible for medical services, and the only state to enroll speech-language pathologists as medicaid providers by utilizing the certification process established for school personnel. Medicaid reimburses for speech, physical and occupational therapies, psychological services, audiology, and private duty nursing services provided to eligible students.

Extent of Participation: 12,835 students identified as medicaid eligible; 860 personnel are enrolled as medicaid providers in the education system.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Transportation Costs for Private School students.

Funding in 1993-94: Not available.

Description: Transportation — Aid in lieu of transportation equal to the state average amount per pupil for each pupil receiving such aid within each county.

State Share: None

Local Share: Local school district directly reimburses parents for transportation costs.

XII. EARLY CHILDHOOD EDUCATION

Funding in 1993-94: $6.0 million local funding.

Description: Many county school districts provide preschool services for young children. The West Virginia Department of Education administers a grant program that provides a variety of preschool services for young children and their families.

State Share: ($6.0 million) The West Virginia Department of Education administers the programs based on available funding.

Local Share: The local school districts administer the programs based on available funding.

Extent of Participation: Fifty (50) counties participate.

XIII. LOCAL SCHOOL REVENUE

Property Tax

Total property taxes levied statewide in 1994 were $670.6 million. Of this amount, 68.2 percent ($457.2 million) was distributed for public elementary and secondary education. The state received $2.5 million (.4 percent); counties received $160.3 million (23.9 percent); and the municipalities received $50.5 million (7.5 percent).

The property tax in West Virginia is collected at the county level and is paid to the sheriff/treasurer of each of the 55 counties. All property is assessed in terms of its use, location, and value as of July 1.

Beginning July 1, 1993, all assessments were required to be 60 percent of the properties' true and actual value. This was the result of a three-year statewide reappraisal program that began July 1, 1991. All property is defined by statute according to the following classes for tax purposes:

Class I. All tangible personal property employed exclusively in agriculture, including horticulture and grazing; all products of agriculture, including livestock, while owned by the producer; all notes, bonds and accounts receivable, stocks, and any other evidences of indebtedness.

Class II. All property owned, used, and occupied by the owner exclusively for residential purposes; all farms, including land used for horticulture and grazing, occupied and cultivated by their owners or bonafide tenants.

Class III. All real and personal property situated outside of municipalities, exclusive of Classes I and II.

Class IV. All real and personal property situated inside of municipalities, exclusive of Classes I and II.

Total levy rates by class vary between counties. The rate for Class II property is two times that of Class I and the rates for Classes III and IV property are four times that of Class I.

The maximum property tax levy rates per $100 of assessed property are:

Class I Property	22.95 cents
Class II Property	45.90 cents
Class III Property	91.80 cents
Class IV Property	91.80 cents

Amendments to the state constitution provide for these rates to be temporarily exceeded by all the taxing authorities except state government. The voters of each taxing authority must approve any excess levy of tax proposed for their city, school board, or county by a prescribed majority. The average actual rates of levy per each $100 of assessed valuation for each class of property for the 1993 tax year were as follows:

Class I	$0.73
Class II	$1.32
Class III	$2.39
Class IV	$3.18

Statewide, the average rate for all property was $2.15 per $100 of assessed valuation.

The increases to regular levy rates are referred to as excess levies and are valid for up to five years. During 1993-94, West Virginia had 41 county boards of education with excess levies in effect. The additional excess levy funds are not part of the basic education foundation formula and therefore, are not equalized. Projected excess levy revenue for 1993-94 was approximately $196.7 million.

The State Department of Tax and Revenue assists the local governments in their efforts of assessment and tax rate determination. Initially, tentative budgets are prepared by county governments, city governments, and school boards. These preliminary budgets reflect not only estimated expenditures and receipts, but also the tax rates needed to produce the required revenues. Budgets and tax rates must then be approved by the Department and public hearings must be conducted before the final budgets and tax rates can be adopted. The Tax Commissioner reports the approved tax rates for each respective taxing authority to the county assessor. Each assessor then applies the tax rates to all of the items of taxable property which are listed in the county's real and personal property records. When this process is complete, each assessor delivers copies of these records along with their new tax rates to the county sheriff, who is responsible for the process of collection.

The following table summarizes the total statewide classified assessed property valuations for the 1993-94 year (in $ billions):

	Class I	Class II	Class III	Class IV	Total
Real Estate		8.30	4.42	3.08	15.80
Personal Property	2.02	0.14	6.51	2.90	11.56
Public Utility	0.19		2.77	0.83	3.79
Total	2.21	8.44	13.70	6.81	31.15

In 1994, considerable public debate occurred over the assessment of coal reserve sales and other natural resource property in West Virginia. Presently, the state average assessment of coal reserve property is $357 per acre.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

None.

Tax Credits and Exemptions

Homestead Exemption (Property Tax)

West Virginia provides a $20,000 exemption against the total assessed value of a single-family residence (including mobile or manufactured homes) for property tax purposes. The exemption is available to those persons who are at least 65 years old or totally and permanently disabled and have lived in and paid property taxes in the state for two consecutive years prior to filing for the exemption. The home must be owner occupied.

Homeowners apply for the exemption annually at the office of their county assessor between July 1 and October 1. The applicant must be at least 65 years old by June 30 of the following year. After the initial application is approved, subsequent registration in later years is not required. Only one exemption is allowed for each owner-occupied residence, irrespective of the number of elderly and/or totally disabled individuals who live in the dwelling.

The total amount of homestead exempt property for the 1993-94 tax year was $2.5 billion.

Business Investment and Jobs Expansion Credit

Business Investment and Jobs Expansion Credit: 412
Business Investment Total Credit: $74.8 million
(Median Value: $4,386)

As an incentive to expand West Virginia's economy and employment, the state provides to firms that qualify a "Business Investment and Jobs Expansion Credit" (a.k.a. Super Credit). There are various ways a company may become eligible for the Super Credit including the following:

(1) *Regular Credit.* A firm that creates at least 50 new jobs within West Virginia over a three-year time period as the result of making a capital investment is entitled to the credit.

(2) *Multiple Party Project Credit.* A project where one or more companies make the capital investment in a new or expanded business, but another firm creates some or all of the jobs, may also qualify for the credit. An example of this, would be a coal company that makes an investment in a deep mine and in mining equipment and then hires another firm as a contract miner to actually produce the coal.

(3) *Multiple Year Project Credit.* The credit may be allowed for a project in which the initial investment created at least ten new jobs and, within three years from the original investment, additional capital investment is made that was contemplated as being necessary at the time of the original investment.

(4) Corporate Headquarters Relocation Credit. The credit is available to a business that moves its corporate headquarters to West Virginia from a location outside the state. The specific amount of the credit depends on the number of new jobs created in West Virginia as a result of the relocation. If it creates at least 15, but less than 50 new jobs, the amount of the credit is equal to ten percent of the corporation's adjusted qualified investment in moving its headquarters.

(5) Small Business Credit. A small business may also qualify for the super credit if it creates at least 10 new jobs and satisfies the following criteria for 1994: (a) a combined annual payroll of $1,919,100 or less; (b) annual gross sales not more than $6,397,050; and (c) annualized median salaries of new jobs created must not be less than $14,050. The criteria for annual payroll, gross sales, and median compensation are adjusted each year to reflect the previous year's rate of inflation.

XIV. TAX AND SPENDING LIMITS

Tax Limits

See discussion on Property Tax above.

Spending Limits

The state of West Virginia does not permit local school boards to expend funds or incur obligations in excess of available funds. However, to the extent a school board does exceed its approved budget, the authorized officials shall not be penalized for a casual deficit that does not exceed three percent, provided that the deficit is satisfied in the budget for the succeeding fiscal year.

The computation of a casual deficit is calculated by comparing the amount of the deficit incurred to the total budgeted school requirements expended by a board of education in a fiscal year (*Evans* v. *Hutchinson*, 158 w. Va 359, 214 S.E.2d 453 (1975)).

Voter Approval of Budgets and Bond Issues

Additional Local Revenue can be generated above the local share funds by a vote of the people. The excess levy revenue is not included as part of the local share of the Basic Foundation Program and it is not equalized.

For a school district to have excess levy funds, the excess levy tax must be approved by a simple majority of the votes cast for and against the excess tax levy. In 1993-94, 41 of the 55 counties had excess levies in effect generating aggregate revenues of approximately $182.7 million.

XV. EARMARKED STATE REVENUE

Lottery: $10.04 Million

As required under the enabling legislation, retained earnings of the lottery may not exceed $250,000. Additionally, not more than 15 percent of the gross amount received from sales can be allocated and disbursed for administrative expenses. A minimum annual average of 45 percent from each lottery is earmarked for prizes. All remaining profits are appropriated annually by the legislature for education, senior citizen, and tourism programs. Of the $32.7 million earned in 1993-94, $10.04 million was appropriated for education, including $6.52 million for the state's elementary school computer program focusing on reading, writing, and arithmetic. Moreover, $3.52 million was made available for higher education programs within the college and university system. Since its inception in 1986, public education has received a total of approximately $43 million.

Beginning in 1994, the lottery is authorized to dedicate up to $18 million in net profits annually (over a ten year period) to fund bond issues of the School Building Authority in an aggregate principal amount not to exceed $160 million.

XVI. SPECIAL TOPICS

Innovative Educational Programs

The West Virginia Education Fund's Partnerships in Education Program serves as a model for a number of other school systems in linking schools and businesses in cooperative and mutually beneficial relationships. The program is a grassroots initiative that enables educators and business people to work together to enhance the learning experiences of the students in the classrooms of West Virginia.

The school-business partnerships program in West Virginia is among the largest of its kind in the country. There are currently 775 schools (87 percent) in all the state's 55 county school districts participating in partnerships with businesses or other community organizations.

WISCONSIN

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I. GENERAL BACKGROUND

State

- During the last 20 years, the state share of state-local revenues has been in the 40 percent to 45 percent range. In 1973-74, the state share increased from 30 percent to 40 percent. Further gains were made by 1985-86 (45 percent). Over the next seven years, growth in school taxes (8.7 percent annually) outpaced state aid increases (6.7 percent annually) leading to a decline in the state's share to 41.8 percent by 1992-93. However, the imposition of revenue limits on school districts, coupled with significant state aid increases, resulted in the state share rising to 42.3 percent in 1993-94 and 45.1 percent in 1994-95. (NOTE: These percentages exclude state property tax credits in the numerator and local non-tax revenues in the denominator.)

- Wisconsin also provides indirect support of schools through several tax credit programs. In 1993-94, credits were provided on property tax bills that reduced the school taxes of all property owners by $319 million and the school taxes of homeowners by $129 million. In addition, an estimated $200 million in targeted income tax credits for farmers, homeowners, and renters was attributable to the school tax. When combined with school aids, the credits increase the state's share to nearly 55 percent in 1993-94.

- School aid is funded through state general purpose revenues (primarily the individual income tax, the general sales and use tax, and the corporate income and franchise tax). In the 1993-95 biennium, 30 percent of the state's general fund budget was appropriated for school aid (the largest single program). No revenues are specifically earmarked for K-12 education (except for a relatively small "common school fund" designated for library aids).

- Wisconsin has used a guaranteed tax base formula to distribute general aid to school districts since 1949. In 1973, major revisions to the general aid formula occurred in order to apply the concept of equalization to all districts. A system of flat aids was eliminated (later restored in 1985). Two separate tiers of cost sharing were established. The most significant change — a requirement that high wealth districts pay "negative aid" to the state for redistribution to other districts — was ruled unconstitutional by the State Supreme Court in 1976 (*Buse v. Smith*) prior to actual implementation. Since then, the basic structure of the formula has remained unchanged.

- In 1993, the Legislature imposed a limit for five years (1993-94 through 1997-98) on the annual amount of revenue per pupil that each school district can raise each year through the combination of state general aid and the property tax (which represents about 93 percent of state-local school revenues). In addition, the state's collective bargaining law was modified for four years (1993-94 through 1996-97) to essentially limit the annual increase in teacher compensation (including benefits) to 3.8 percent. A similar limit applies to compensation of school administrators.

- In 1994, the Legislature set two future funding commitments. First, school aid will be increased at rates sufficient to ensure that for two years (1994-95 and 1995-96) school property taxes (excluding debt service) would, on a statewide basis, be no greater than the total amount levied in 1993-94. School taxes (including debt) totalled $2,996 million in 1994-95 compared to $2,988 million in 1993-94. Second, a special commission (comprised of the Governor as chair, the State Superintendent, and eight legislative leaders) is directed to draft a proposal that would increase the state's share of state-local school revenues to two-thirds (66.7%) beginning in 1996-97. The two-thirds goal will be measured by dividing the sum of state aid and the school levy property tax credit by the sum of state aid and school taxes. A comparable figure for 1994-95 is 51 percent. It is estimated that state support will have to increase by nearly $1 billion in 1996-97 to meet this goal. (NOTE: While the ten-member commission is directed to submit its recommendations to the Legislature by September 1995, it is likely that the issue will be addressed in the 1995-97 state budget, which must pass by July 1995. To date, the Governor has not convened the commission and has shown no interest in doing so.)
- A 1979 lawsuit (*Kukor* v. *Grover*) filed by the Milwaukee Public Schools challenged the constitutionality of the state's financing of K-12 education; the State Supreme Court ruled in 1989 (by a 4-3 vote) that the current system is constitutional. In response to that ruling, amendments to the State Constitution have been proposed in the Legislature (but not adopted) to change the education article (which currently requires that districts be "as nearly uniform as practicable") to require "adequate funding" for education and to allocate state aid through a formula that assures "equal educational opportunity" in all districts. A coalition of about 150 school districts (primarily low-wealth districts including Milwaukee) has been formed to challenge the financing system. The group has delayed its decision to file suit until after the Governor and Legislature act on the 1995-97 state budget.

Local

- Wisconsin has 370 K-12 districts, 47 elementary (K-8) districts, and ten union high school (UHS) districts for a total of 427 school districts. All are fiscally independent. In addition, 12 cooperative educational service agencies (CESAs) — which are fiscally dependent — provide programs and services to school districts. Six counties operate handicapped children's education boards (CHCEBs) — one is fiscally dependent and five are fiscally independent.
- Property taxes constitute the sole source of local district tax revenues. Wisconsin's districts are classified as common (367), union high (10), unified (49), and 1st class (Milwaukee). Common and union high districts are required to hold an annual meeting at which a majority of electors present approve the district's tax levy. School boards in unified and first class districts do not hold annual meetings.

Funding Summary, 1993-94

Total State School Aid (All Programs)		$2,187 million
Grants in aid	2,187 million	
Teacher retirement contributions	0	
FICA	0	
Total Local School Revenue		$2,726 million
Property tax revenue	2,540 million*	
Other local source tax revenue	0	
Local source non-tax revenue	186 million	
Total Combined State and Local School Revenue		$4,913 million
State-Financed Property Tax Credits Attributable to School Taxes**	448 million	

NOTES: The total amount of school revenue (including state property tax credits) was $5,361 million.

*The total amount levied by school districts was $2,988 million, which was offset by $448 million in state property tax credits, resulting in a net amount of $2,540 million.

** Excludes $200 million in targeted tax credits provided through the income tax system.

II. THE BASIC SUPPORT PROGRAM

General Equalization Aid Formula

Funding in 1993-94: $1,735.4 million (79.4% of total state school aid).

Nature of Program: Guaranteed tax base formula with two tiers of state sharing in school district costs (Wisc. Statutes 121.07 and 121.08).

Allocation Units: Pupils. Membership based on the average of two counts — third Friday in September and second Friday in January — plus the average daily membership for summer school from the prior school year.

Local Fiscal Capacity: Equalized assessed property valuation.

How Formula Operates: The state guarantees a certain base amount of property value per pupil with state aid making up the difference between the guaranteed tax base and the local tax base. In 1993-94, the primary guaranteed valuation per member was as follows:

K-12 districts	$310,726
K-8 districts	466,089
High school districts	932,178

For costs per member above a certain level, known as the primary cost ceiling, a lower guaranteed tax base is used to calculate aid for these "secondary" costs. In 1993-94, the primary cost ceiling was set, by statute, at $5,453 per member and 227 districts (53%) exceeded this level. The secondary guaranteed valuation per member is set at 106 percent of the state average equalized valuation per member and was as follows:

K-12 districts	$204,365
K-8 districts	306,547
High school districts	613,095

The formula takes the following form:

$$\text{State Aid} = \text{District Cost} \times \frac{(\text{Guaranteed Per-Pupil Tax Base} - \text{District Per-Pupil Tax Base})}{\text{Guaranteed Per-Pupil Tax Base}}$$

For each level of aid (primary and secondary), the same calculation is performed. The only distinction is in the use of two different guaranteed valuations to determine the state's share for costs up to the primary cost ceiling and for costs above the ceiling. For example, a district with shared costs of $6,000 per member would have $5,453 supported through primary aid and $547 supported through secondary aid. A district's equalization aid payment equals the sum of primary aid and, if applicable, secondary aid. In some cases, a district's secondary aid may be negative, which partially reduces its primary aid. However, a district's total aid cannot be negative; the amount is increased to $0 (these districts are commonly referred to as "zero-aid" districts).

Important aspects of the formula include:

1. Costs eligible for state sharing include operating costs, capital outlay and debt service. Federal aid, state categorical aid, and local non-property tax revenues are excluded from this cost base.

2. Aid calculation is based on cost, membership and property valuation data from the prior school year. Therefore, there is a one-year lag before the equalization aid formula adjusts for changes in school district conditions.

3. The primary guaranteed valuation is not set at a certain amount, instead it is allowed to float to a level sufficient to distribute the amount appropriated for general equalization aids.

4. The primary cost ceiling is adjusted each year by the rate of inflation.

5. As noted, a district's equalization aid payment cannot be negative. The State Supreme Court ruled a "negative aids" provision as unconstitutional prior to its implementation in 1977-78.

State Share: A district's equalized valuation is compared to the state guaranteed tax base and state aid equals the amount of revenue that would be generated by the "missing" portion of the guaranteed tax base. For example, if a district's tax base lacks 40 percent of the guaranteed tax base, state aid would support 40 percent of the district's aidable costs. A district's primary aid (calculated for costs up to the primary cost ceiling) and its secondary aid (calculated for any costs above the primary cost ceiling) are added together. If the sum is negative, the amount is automatically increased to $0.

Local Share: The local share is equal to a district's equalized value as a portion of the guaranteed tax base multiplied by its aidable costs. For example, if a district's tax base is 60 percent of the guaranteed tax base, the property tax supports 60 percent of the district's aidable costs. For districts subject to secondary aids, the local share reflects the combined effect of the primary and secondary guaranteed valuations.

Weighting Procedures: None.

Adjustments for Special Factors: None.

Aid Distribution Schedule: Aid is distributed as follows:

(1) 15% on 3rd Monday in September,
(2) 25% on 1st Monday in December,
(3) 25% on 4th Monday in March,
(4) 35% on 3rd Monday in June.

Districts Off Formula: 54 districts received no equalization aid. These 54 districts plus three other districts received a total of $15.7 million in minimum aid. Twenty districts received special adjustment (hold harmless) aid.

Minimum Aid

Funding in 1993-94: $15.7 million (less than 1.0% of total state school aid).

Description: Districts that are either not eligible for equalization aid or receive very low payments per member are eligible for a minimum, flat aid per member. The minimum aid amount varies depending on the district's median household income (according to federal census data) and its local levy rate (Wisc. Statute 121.10).

State Share: There are four categories of minimum aid, $100, $175, $300, and $400 per member, with the higher amounts provided to districts with lower median incomes and higher levy rates. The state provides the additional amount necessary to bring districts up to the minimum level.

Extent of Participation: 57 districts (13%).

Beginning in 1994-95, a penalty (20% reduction in minimum aid) will apply to any district whose percentage increase in shared costs per member exceeds the rate of inflation plus 1%; the reductions will be distributed through the general equalization aid formula. In addition, the lowest minimum aid category was increased from $100 to $175.

Special Adjustment Aid

Funding in 1993-94: $3.5 million (less than 1.0% of total state school aid).

Description: The state provides additional general aid to districts to either cushion the effect of reductions in general school aid from one year to the next (a hold harmless) or as an incentive for consolidation (Wisc. Statute 121.105).

State Share: A district is guaranteed a specific percentage of its prior year's general aid payment (90% in 1993-94, 87.5% in 1994-95 and 85% in 1995-96 and thereafter) or the prior year payment minus $1,000,000. Consolidated districts are guaranteed, for up to five years, no less than the total amount of equalization aid received by the separate districts in the year prior to consolidation. [NOTE: Consolidating districts also qualify for a ten percent increase in the equalization aid formula's guaranteed valuations and primary cost ceiling for five years, but this provision is funded through general equalization aids.]

Extent of Participation: 20 districts (4.7%).

General Aid to County Handicapped Children's Education Boards (CHCEBs)

Funding in 1993-94: $2.3 million (less than 1.0% of total state school aid).

Description: Fiscally independent CHCEBs receive general aid for pupils enrolled solely in county-operated programs and for costs incurred by CHCEBs for pupils jointly enrolled in school district and county programs (Wisc. Statute 121.135).

State Share: The payment is determined by recalculating each participating school district's equalization aid (by adding certain pupils and costs) in an attempt to simulate the additional general aid that each district would have received had the pupils been served by the school district rather than the county. The additional aid amount is paid to the county.

Extent of Participation: Five CHCEBs.

III. TRANSPORTATION

Funding in 1993-94: $17.7 million (less than 1.0% of total state school aid).

Description: Districts required by state law to furnish transportation services to public and private school pupils enrolled in regular education programs (including summer school) are eligible to receive categorical aid. The amount of aid is based on the number of pupils served in the prior school year (Wisc. Statute 121.58).

State Share: The state pays a flat amount per transported pupil which varies according to the distance that each pupil is transported to school (rates have not changed since 1980-81):

Distance	*Regular Year*	*Summer School*
0-2 miles (hazardous areas)	$12	$0
2-5 miles	30	4
5-8 miles	45	6
8-12 miles	60	6
12-15 miles	68	6
15-18 miles	75	6
Over 18 miles	85	6

Total state aid payments cannot exceed the appropriated amount. A proration of 92 percent of full-funding of payments occurred in 1993-94.

Local Share: The district assumes the remaining costs; however, transportation costs not reimbursed through categorical aid are eligible for state sharing under the general equalization aid formula.

Extent of Participation: 422 districts (99%).

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Capital outlay and debt service costs are aidable under the general equalization aid formula (described in Section II). Prior to 1990-91, only up to $90 per member in long-term debt service costs was eligible for sharing under the equalization formula. Capital costs not funded through borrowing were not subject to the $90 per member limit. Beginning in 1990-91, the limit was removed and all debt service costs became eligible for state sharing.

Local Capital Project Financing

There are four principal methods available to districts to finance capital projects:

Operating Budget. Districts place capital costs directly into their operating budget and the full cost is paid within one fiscal year. This method is usually used for minor maintenance, repair, and equipment costs.

Capital Expansion Funds. Districts can create a segregated, capital expansion fund (commonly called a sinking fund) to budget prospectively for capital projects. In common or union high school districts, this fund can only be created by the annual meeting of the district electors. A portion of the tax levy is designated for a future specified project and an amount is collected over a period of years.

State Trust Fund Loans. These are constitutionally established trust funds through which revenues from fines and forfeitures and the sales of public lands are collected and then made available for loans to school districts and municipalities. Loan amounts are usually small and are made at relatively low interest rates.

General Obligation Promissory Notes and Bonds. The most common method of capital financing is the issuance of promissory notes (maximum maturity of ten years and sold either publicly or privately) and municipal bonds (20 years maximum maturity and sold publicly). District must establish a separate debt service fund and levy an annual, nonrepealable tax for the purpose of making principal and interest payments. The referendum requirements for school borrowing are described in Section XIV.

Special provisions apply to the Milwaukee Public Schools. The district does not have the general authority to issue promissory notes (although special provisions enacted in 1989 and 1991 allowed the district to issue up to $62.5 million in notes). Milwaukee can levy a school construction tax of up to 0.6 mills annually (voters can approve a higher rate). Finally, school bonds are automatically subject to a citywide referendum.

Debt Limit: A school district's aggregate amount of indebtedness cannot exceed five percent of its equalized property valuation. However, school districts that offer grades 1-12 and receive general equalization aid (about 80 percent of the districts) are allowed a debt to valuation ratio of ten percent.

V. TEACHER RETIREMENT

Prior to 1973-74, the employer's share of the payments for teacher retirement and social security had been paid directly by the state. Beginning in 1973-74, this cost became a school district obligation and eligible for state sharing under the general equalization aid formula.

VI. SPECIAL EDUCATION

Funding in 1993-94: $261.3 million (12% of total state school aid).

Description: Special education is primarily provided by local districts, either on their own or through cooperative programs. However, regional agencies (CESAs and CHCEBs, which are described in Section I) also serve handicapped children. The state reimburses districts, CESAs, and CHCEBs for a portion of their prior year costs for educating and transporting pupils enrolled in special education, including school age parent programs (Wisc. Statutes 115.88 and 115.93).

State Share: The state pays a fixed percentage of cost regardless of the amount expended or the property tax base of the district. The percentages are:

- 63% of the salaries and fringe benefit costs for special education teachers, physical and occupational therapists, teacher and therapy aides, program supervisors, and coordinators;
- 63% of the cost of special education transportation;
- 51% of the salaries and fringe benefit costs for school psychologists and social workers (regardless of whether they are employed in a special education program);
- 100% of the cost of board, lodging, and transportation of nonresident handicapped children.

Aidable costs exclude any offsetting federal or state tuition receipts. Total state aid payments cannot exceed the appropriated amount. Proration of reimbursement rates has occurred every year since 1985-86 (71.4% of full-funding in 1993-94).

Local Share: The district assumes the remaining costs; however, costs not reimbursed through categorical aid are eligible for state sharing under the general equalization aid formula.

Extent of Participation: 427 districts (100%) and 18 regional agencies (12 CESAs and 6 CHCEBs).

VII. COMPENSATORY EDUCATION

Preschool to Grade 5 Grant Program

Funding in 1993-94: $6.7 million (less than 1.0% of total state school aid).

Description: Grants supporting programs designed to improve the education of preschool through grade five pupils enrolled in districts with high concentrations of economically disadvantaged and low-achieving pupils. Districts receiving grants must ensure that each elementary school complies with certain requirements regarding class size (25 pupils per teacher), annual testing in basic skills, 4-year-old kindergarten, identification of pupils needing remedial assistance, parental involvement, in-service training, and staff evaluation (Wisc. Statute 115.45).

State Share: Grants are awarded on a competitive basis to a limited number of districts (based on high numbers of dropouts and low-income pupils) for a three year period with renewal subject to state approval. Funding is supplemental in nature and cannot supplant or replace existing funds.

Local Share: No local contribution is required.

Extent of Participation: 39 elementary schools within 4 districts: Beloit, Kenosha, Milwaukee, and Racine (0.9% of all districts but 2.6% of all elementary schools).

Aid to Milwaukee Public Schools
(Desegregation Settlement Aid)

Funding in 1993-94: $8.0 million (less than 1.0% of total state school aid).

Description: This categorical aid program fulfills an agreement made by the Governor and the State Superintendent with the Milwaukee School Board, as part of a 1987 desegregation lawsuit settlement, to provide state funds for compensatory education programs to address the academic deficiencies of disadvantaged pupils (Wisc. Statutes 119.71 through 119.82).

State Share: The state provides a set amount to Milwaukee to be used for specific purposes. In 1993-94, the aid distribution included: (1) $5.1 million to expand the number of full day, 5-year-old kindergartens available to low-income pupils, (2) $1.1 million for expanded opportunities for 1st graders who were in full-day kindergartens, (3) $0.9 million to contract with private, nonprofit day care centers for early childhood education, (4) $0.5 million for alternative education programs for pupils subject to Learnfare (a school attendance requirement for AFDC recipients), and (5) $0.4 million for an extended-day pilot program.

Local Share: No local contribution is required.

Extent of Participation: 1 district (Milwaukee).

VIII. GIFTED AND TALENTED EDUCATION

No specific categorical aid program; however, see description of the Learning Assistance Grant program under Section X.

IX. BILINGUAL EDUCATION

Funding in 1993-94: $8.3 million (less than 1.0% of total state school aid).

Description: Districts required by state law to provide special classes to pupils of limited English-speaking ability (schools which enroll ten or more LES pupils in grades K-3, or 20 or more in grades 4-12) are eligible for categorical aid (Wisc. Statute 115.995).

State Share: The state pays a percentage of the district's prior year costs for salaries, special books, and equipment (plus other state-approved expenses) that are attributable only to programs for LES pupils. The reimbursement rate (33% in 1993-94) is based on the ratio of the categorical aid appropriation to total aidable costs of eligible districts.

Local Share: The district assumes the remaining cost; however, costs not reimbursed through categorical aid are eligible for state sharing under the general equalization aid formula.

Extent of Participation: 35 districts (8%).

X. OTHER CATEGORICAL PROGRAMS

Integration Aid

Funding in 1993-94: $75.2 million (3.4% of total state school aid).

Description: The state provides unrestricted aids as an incentive for districts to voluntarily improve racial balance within and between school districts. To be eligible, a district must transfer students to and from attendance areas or districts with certain concentrations of minority or nonminority student populations. An area or district which has 30 percent or greater minority enrollment is considered high (Wisc. Statutes 121.85 and 121.86).

State Share: Different formulas are used to fund the two types of student transfers. For each *intra*district transfer, a district receives an additional 32.5 percent of its per-member equalization aid payment. For each *inter*district transfer, the district of attendance receives an amount equal to its average cost per resident member; the district is also eligible for a 20 percent increase in this amount if the total number of accepted transfers equals five percent or more of its total resident membership. The sending district continues to count the pupils in membership for general aid purposes; however, the district receives these funds as part of its equalization aid payment. Integration aid is funded through the same appropriation as general equalization aid. Since the program acts as a first draw from that appropriation, proration of payments does not occur.

Extent of Participation: 3 districts (Beloit, Milwaukee, and Racine) received a total of $28.1 million in intradistrict transfer aid; 24 districts (Milwaukee and 23 suburban Milwaukee districts) received a total of $47.1 million in interdistrict transfer aid.

School Library Aid

Funding in 1993-94: $15.9 million (less than 1.0% of total state school aid).

Description: Funds are provided for library books and other instructional materials for school libraries. The funding source is the income generated from the state's common school fund, which is primarily derived from interest payments on loans made from the fund to municipalities and school districts (Article 10 of the State Constitution and Wisc. Statute 43.70).

State Share: A district receives a per capita payment based on its proportionate share of the total number of children between the ages of 4-20 residing in each district according to an annual school census.

Extent of Participation: 417 districts (98%); all districts except those serving high school grades only.

Driver Education Aid

Funding in 1993-94: $4.2 million (less than 1.0% of total state school aid).

Description: The state pays categorical aid for each high school pupil who successfully completes the classroom and behind-the-wheel phases of a driver education course in the prior school year (Wisc. Statute 121.41)

State Share: The state pays $100 per pupil. In no case may total aid exceed the actual cost of instruction. Total payments cannot exceed amount appropriated.

Local Share: The district assumes the remaining costs; however, costs not reimbursed through categorical aid are eligible for state sharing under the general equalization aid formula.

Extent of Participation: 370 districts (87%).

Nutritional Programs

Funding in 1993-94: $4.1 million (less than 1.0% of total state school aid).

Description: The state makes payments to school districts for the following purposes: (1) to partially match the federal contribution under the national school lunch program ($3.6 million), (2) to support the cost of reduced price meals served to the elderly ($0.2 million), and (3) to reimburse the cost of morning milk provided to low-income children in grades K-5 ($0.3 million) (Wisc. Statutes 115.34, 115.343 and 115.345).

State Share: (1) School lunch — a variable percentage (approximately 28%) of the amount of federal basic reimbursement provided in 1980-81 determines the state total which is then allocated among districts according to the number of lunches served during the prior school year. (2) Elderly nutrition — 15 percent of the cost of the meal or 50 cents per meal, whichever is less. (3) Morning milk — 100 percent reimbursement.

Local Share: (1) School lunch — district assumes costs above federal and state reimbursement. (2) Elderly nutrition — district assumes remaining costs although participants can be charged. (3) Morning milk — no local contribution required unless insufficient funds available for full state reimbursement.

Extent of Participation: School lunch — 414 districts (97%); Elderly nutrition — 54 districts (13%); Morning milk — 177 districts (41%).

Beginning in 1994-95, a total of $150,000 will be available in grants for school districts to establish school breakfast program in schools with high concentrations of low-income pupils.

Tuition Payments

Funding in 1993-94: $5.7 million (less than 1.0% of total state school aid).

Description: The state fully reimburses districts for the prior year cost of educating children who live in properties for which there is no parental property tax base support (such as children's homes, military camps or penal institutions, and foster or group homes) (Wisc. Statutes 121.79 and 121.83).

State Share: The state payment is calculated on the basis of the district's average daily cost per pupil and the number of school days the child is enrolled in school.

Extent of Participation: 29 districts (5%) and two regional agencies.

Learning Assistance Program

Funding in 1993-94: $2.3 million (less than 1.0% of total state school aid).

Description: Grants are awarded by the state Department of Public Instruction to school districts that provide one of the following: (1) coordination with health and social services for pupils and their families, (2) integration of early childhood education and child care, (3) gifted and talented programs, (4) services to limited-English speaking pupils from Indo-Chinese language groups, (5) reading improvement programs, or (6) Head Start-like programs (Wisc. Statute 115.363).

State Share: Grants are awarded on a competitive basis to a limited number of districts for a two year period. Funding is supplemental in nature and cannot supplant existing funds.

Local Share: No local contribution is required.

Extent of Participation: 26 districts and 8 regional agencies.

Aid for Children-at-Risk Programs

Funding in 1993-94: $3.5 million (less than 1.0% of total state school aid).

Description: Districts required to identify and develop plans and special programs for children that are considered at-risk of not completing high school (as defined by state law) are eligible for additional state aid to serve these children. A district must have 50 or more dropouts or a dropout rate greater than 2.5 percent. To receive the aid, the district's programs for such children must meet certain performance criteria (Wisc. Statute 118.153).

State Share: For each pupil enrolled in the at-risk program in the previous school year, the district receives an amount equal to ten percent of its prior year's general equalization aid per pupil.

Local Share: The district assumes the remaining costs; however, program costs not reimbursed through categorical aid are eligible for state sharing under the general equalization aid formula.

Extent of Participation: 22 districts (5%).

Program changes, effective beginning in 1994-95, will reduce the number of school districts eligible for aid (to about 12) and a district's aid payment will be based on individual pupil performance.

Alcohol and Other Drug Abuse Grant Programs

Funding in 1993-94: $5.4 million (less than 1.0% of total state school aid).

Description: Various categories of grants are awarded by the Department of Public Instruction to address the problems of alcohol and other drug abuse among school-age children. Emphasis is placed on both prevention and intervention including after-school and summer school (latch-key) programs, K-12 curriculum development, family involvement, and drug abuse resistance education (Wisc. Statutes 115.36, 115.361 and 115.362).

State Share: Grants are awarded on a competitive basis with the state share set at varying levels depending on the program.

Local Share: For some grant categories, local match is required. However, in all cases, any remaining costs are eligible for state sharing under the general equalization aid formula.

Extent of Participation: 160 districts (37%) and 12 regional agencies.

Other Categorical Programs

Funding in 1993-94: $5.2 million (less than 1.0% of total school aid).

Description: Additional categorical aids (mostly competitive grant programs) provide funds to school districts and regional agencies for items such as staff development, pupil assessment, collaboration with social service agencies, science and mathematics education, school-based management, truancy abatement, and suicide prevention.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

Milwaukee Parental Choice Program

Funding in 1993-94: $2.1 million (reallocated from the Milwaukee Public Schools' equalization aid payment).

Description: The state pays for the cost of low-income students (less than 175 percent of the poverty level) living in Milwaukee to attend private, nonsectarian schools in the City at no charge. Program is limited to no more than one percent of the Milwaukee Public Schools' membership, or approximately 950 students *(increased to 1.5 percent of Milwaukee's membership, or 1,400 pupils, beginning in 1994-95)* (Wisc. Statute 119.23).

State Share: State general equalization aids that would have been paid to MPS for the participating students are instead provided to the private schools. In 1993-94, the payment was $2,988 per student.

Extent of Participation: 12 private schools.

NOTE: State aids provided for nutritional program (see Section X) apply to private schools as well ($0.4 million in total payments). In addition, pupil transportation aid and special education aid compensate districts for costs related to private school pupils; however, the payments are made to local districts and not the private schools.

XII. EARLY CHILDHOOD EDUCATION

State Supplement for Head Start

Funding in 1993-94: $4.8 million (less than 1.0% of total state school aid).

Description: Grants provide a supplement to the federal Head Start program (Wisc. Statute 115.3615).

State Share: Funds are distributed to agencies eligible for designation as Head Start agencies under federal guidelines. Preference is given to agencies already receiving federal funding to enable those agencies to expand their programs. State funds can be used as a match for federal funds only if the state funds are used to secure additional federal support.

Local Share: No local contribution is required.

Extent of Participation: 34 Head Start agencies (which include 4 school districts).

NOTE: State aids provided through the special education aid formula (see Section VI) support the costs of pre-school education programs for children age three or older with exceptional educational needs. In addition, a pupil enrolled in pre-school special education is counted as 0.5 member under the general equalization aid formula. Further, three grant programs (Preschool to Grade 5, Aid to Milwaukee Public Schools and Learning Assistance) have early childhood education components.

XIII. LOCAL SCHOOL REVENUE

Property Tax

The property tax is the only local tax available to school districts. In 1993-94, it generated $2,988 million which represents 54.9 percent of total property tax collections in Wisconsin ($5,438 million).

Although state law requires that property be assessed at full-value, most municipalities assess property at some fraction of full-value. However, state law requires local assessments to be within 90 percent and 110 percent of full-value at least once every four years. Failure to comply may result in a state-ordered reassessment of the municipality to be monitored by the state. This requirement applies separately to each major class of property.

The state Department of Revenue (DOR) annually determines the equalized (or full) value of all taxable property in the state and for each local taxing jurisdiction (including school districts). In addition, DOR assesses all manufacturing property in the state.

Income Tax or Other Sources of Local Tax Revenue

The state does not allow school districts to collect an income tax or other sources of tax revenue.

Tax Credits and Exemptions

Wisconsin employs two forms of tax credits to relieve or reduce the burden of school property taxes.

Tax Credits on Property Tax Bills. Two credits are provided. First, a "school levy" credit offsets the taxes of all property owners; the funds ($319.3 million in 1993-94) are distributed according to each municipality's 3-year average share of the statewide school levy. Second, a "lottery" credit offsets the taxes of homeowners (principal dwellings only). In 1993-94, the lottery credit equalled the school tax levy on the first $5,900 of the property's value. The total cost was $128.7 million (paid through state lottery proceeds). There is no general consensus on whether both credits should be included when measuring the state's share of school revenues. Under the two-thirds state funding goal set for 1996-97, only the school levy credit would be counted.

Tax Credits through the Income Tax System. Several programs target relief to Wisconsin residents through the income tax system to offset property taxes attributable to residential or agricultural property. Under the homestead tax credit ($109.4 million in 1993-94) and the farmland preservation credit ($29.9 million in 1993-94) tax credit, eligible recipients are granted a refundable credit against their income tax based upon the level of their household income and property tax. For those individuals not required to file an income tax return or those with no income tax liability, a direct payment is made. In addition, the farmland tax relief credit ($15.9 million in 1993-94) provides a refundable credit to farmers without any income or preservation requirements. Finally, the property tax/rent credit program allows individual income taxpayers to claim a credit of up to $200 against their income tax liability for property taxes or rent paid in lieu of property taxes. In 1993-94, this credit cost the state $197.2 million. Since these credits are provided to individuals and not local governments, it is difficult to attribute an amount to K-12 schools — a rough approximation would be $200 million in 1993-94. However, these credits are generally not considered when measuring the state's level of support.

XIV. TAX AND SPENDING LIMITS

Revenue Limits

For five years (1993-94 through 1997-98), school districts are subject to a limit on the annual increase in their revenue per pupil derived from state general aids and property taxes. The allowable increase per pupil cannot exceed a certain dollar amount or the rate of inflation, whichever results in the higher amount of revenue. "General aids" consist of equalization aid, minimum aid, special adjustment aid, and integration aid (about 85 percent of the funds provided by the state). A three-year rolling average of a school district's membership on the 3rd Friday in September is used to calculate the limit.

In 1993-94, a district was allowed to increase its revenue per pupil by the greater of $190 or the rate of inflation, as measured by the Consumer Price Index between May of 1992 and May of 1993, which was 3.2 percent. Beginning in 1994-95, the $190 per pupil amount is adjusted each year by the inflation rate. Therefore, in 1994-95, the allowable revenue increase was the greater of $194.37 per pupil or 2.3 percent (CPI between May 1993 and May 1994). While a school district is not required to raise the maximum allowed under the limit, the district cannot carry forward any of the unused revenue authority to subsequent school years.

Debt service is not subject to the limit if the borrowing was either authorized without a referendum prior to August 12, 1993, or approved by referendum at any time. Adjustments to the limit are allowed for transfers of service responsibilities between a school district and another governmental unit (including a school district) or for changes in school district boundaries. Finally, a school district can exceed the limit by receiving voter approval at a referendum. In two years, 15 referendums have been held and six (40%) have been approved. A penalty (reduction in state aid) is imposed on districts violating the revenue limit.

Annual Meeting Approval of Tax Levy

In a common or union high school district (378 or 88 percent of the state's 428 districts), the property tax levy must be approved by an annual meeting of the district's electors. The meeting is held between May 15 and September 30 and only those electors present at the meeting may vote. However, the school board has the authority to adjust the tax levy by the 3rd Monday in October if it is determined that the annual meeting has not voted a tax sufficient to operate and maintain the schools or for debt retirement. School boards in unified districts and first class city districts (50 in total) set their levies without voter approval.

Beginning in 1997-98, school boards and the annual meeting will be prohibited from levying a tax for school operations that exceeds 10.0 mills for K-12 school districts, 6.67 mills for K-8 districts, and 3.33 mills for high school districts. (In 1994-95, the K-12 levy rate for operations is 15.3 mills statewide.) This provision is intended to force the Governor and Legislature to provide the funds necessary to achieve the two-thirds state funding goal beginning in 1996-97. Without significant increases in state aid, 10.0 mills would be insufficient to support current school spending, thereby creating a funding crisis for school districts. It is argued that repealing the 10.0 limit, without a dramatic shift in funding to the state level, would be difficult politically.

Voter Approval of School Borrowing

Districts can generally borrow up to an aggregate of $1.0 million without holding a referendum. (A lower amount is applied to districts with memberships of less than 350 pupils.) If the $1.0 million exemption does not apply and the board intends to issue a promissory note (10 years maximum maturity), then a referendum is required only if petitioned by the electors (signatures from 7,500 electors or 20 percent of the electors, whichever is less, must be obtained). If the $1.0 million exemption does not apply and the board intends to issue a municipal bond (20 years maximum maturity), then the board has three options: (1) call for a referendum, (2) hold a public hearing at which the electors present vote on whether a referendum should be held, or (3) expose the bond issuance to a petition for referendum (again signatures from 7,500 electors or 20 percent of the electors, whichever is less, must be obtained). Exceptions to the referenda requirements are allowed if the district, under a governmental order, has to remove a hazardous substance from a school or remedy a fire code violation. The success rate of borrowing referendums has been about 50 percent.

The revenue limits have affected school borrowing decisions because debt service costs related to borrowing that was approved without a referendum on or after August 12, 1993, are subject to the limit. While districts can continue to borrow without a referendum (subject to the conditions described above), they must repay that debt within their overall revenue limit. If a district determines that the debt cannot be funded within the revenue limit, it must pass a referendum to exclude such costs. Consequently, very little long-term borrowing has occurred without a referendum.

XV. EARMARKED STATE REVENUE

Except for a small "common" school fund that is designated for library aids (see Section X), no state revenues are earmarked specifically for K-12 education. Segregated lottery funds partially supported the cost of school aids in 1988-89 and 1989-90; however, since 1991, most of the proceeds have been used as a credit on the property tax bills of homeowners.

XVI. SPECIAL TOPICS

School Choice

The Milwaukee parental choice program (described under Section XI) is the nation's first experiment in private school choice. Technically, it is not a voucher program because the state reimburses schools participating in the program rather than providing funds directly to parents or students. Furthermore, the program is limited to children from low-income families and only nonsectarian private schools can participate. Legislation has been proposed in recent years to facilitate interdistrict, public school choice on a statewide basis. Currently, interdistrict transfers occur for integration purposes in the Milwaukee area (see Section X). State law permits 11th and 12th grade pupils to earn high school credit for certain courses completed at postsecondary institutions at school district expense.

Innovative Programs

Wisconsin enacted charter school legislation in 1993. Such schools can be established in no more than ten school districts and each district is limited to two charter schools. In general, charter schools are exempt from most state laws and rules governing public schools. However, the schools are not legally or fiscally autonomous from the school district. All personnel remain employed by the school board and instructional staff must be state-licensed.

WYOMING

Myron Basom
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Describes the state education finance program in effect for 1992-93.

I. GENERAL BACKGROUND

State

- Since fiscal year 1984-85, the state share of general fund revenues for public schools has been trending up as a result of decreased revenues generated at the local level. This is due to low assessed valuations affecting not only local revenue generation, but the state 12 mill revenue generation as well. Dollars expended from the foundation program per average daily membership (ADM) increased from $1,500 in 1983-84 to $2,320 in 1992-93.

- The current funding formula went into effect in 1983 after the state's foundation program was declared unconstitutional by the State Supreme Court in 1980. Under W.S. 21-13-301 to 313, the foundation guarantee represents a minimum level of educational services and facilities for each school district based upon the 1980 state Supreme Court case that the quality of a child's education cannot depend entirely upon local property taxes; rather, it must be based upon the wealth of the state as a whole. The foundation program guarantee for one classroom unit (CRU) in 1992-93 was $92,331.

- The most unusual feature of the new formula concerned the recapture of revenues from school districts fortunate enough to have high assessed property valuations due to the mineral extraction industry within the county.

- State revenues for public schools come primarily from two sources: (1) a 12 mill state property school tax, and (2) mineral production taxed at 100 percent of fair market value of which 50 percent is returned to the state from the federal government. Other sources include recapture from counties with high assessed valuation and severance taxes on minerals extraction such as coal and trona.

- Four large school districts filed a lawsuit in district court on January 15, 1992, alleging inequity in the state's foundation guarantee program in relationship to the larger school districts. The suit was joined by two other large districts. The suit was brought forward before the legislative session because of perceived stalling on the part of the legislature to address the problem. Several small school districts countered with their own lawsuit. A ruling was made by the State District court. Both sides in the suit have appealed the decision. The State Supreme Court is expected to issue its decision sometime in early 1995.

Local

- There are 49 fiscally independent school districts in Wyoming.

- Property taxes are the major source of revenue for the school districts. Other sources of revenue include fines and forfeitures, motor vehicle fees, tuition received for out-of-district student placement, land income payments, forest reserve funds, and Taylor Grazing Act revenues.

- Local support, including district and county revenues, accounted for 52 percent of the support for public schools.

Funding Summary, 1992-93

Total State School Aid (All Programs)		$344 million
Grants in aid	344 million	
Teacher retirement contributions	0 million	
FICA	0 million	
Total Local School Tax Revenue		$191 million
Property tax	Information not provided	
Other local source tax revenue	Information not provided	
Local source non-tax revenue	Less than one percent of the total	
Total Combined State and Local School Revenue		$535 million
State Financed Property Tax Credits Attributable to School Taxes	0 million	

II. THE BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1992-93: $245.3 million (71.3% of total state school aid).

Nature of Program: Foundation program that in practice acts like a guaranteed tax program, particularly with the power equalizer mill supported by the foundation program.

Allocation Units: Classroom Units (CRU). Average daily membership (ADM) of pupils is divided by predetermined divisors that computes to a classroom unit value. ADM is computed by taking the cumulative number of pupils present plus the cumulative number of pupils absent, but within a ten day period of absence, divided by the number of teacher/pupil contact days.

Local Fiscal Capacity: Assessed property valuation plus other revenues.

How Formula Operates: Full participation in the foundation program requires unified school districts, (K-12), to levy 25 mills, plus the six county mills, plus the statewide 12 mills; employ and compensate certified teachers for not less than nine months; operate all schools in the district at least 180 days; and provide the state superintendent with data and information so the state can compute the district's entitlement. The two elementary school districts must levy 20 mills plus five additional mills for tuition support of students attending secondary schools in a unified school district.

State revenues are disbursed to school districts based upon the difference between the foundation program guarantee plus foundation program allowances and the local resources generated by the school district. The formula is based upon the prior year's ADM and actual operational expenses.

The total foundation entitlement amount a district receives is equal to the sum of two components.

1. The calculated CRUs are multiplied by the CRU unit value of $92,331 to arrive at an allowance of operational expenses for the previous year.
2. The state reimburses districts at a specified rate for the previous year's operational expenses for the following programs:
   - operation and maintenance of transportation routes at 75 percent;
   - capital outlay for bus purchases or leases at one-sixth of the actual expense for the previous four years;

- tuition paid for out-of-district placement at 100 percent;
- isolation expense at 75 percent;
- homebound expense at 75 percent;
- supplementary special education expense at 85 percent;
- one teacher schools actual expense at 100 percent up to one classroom unit ($92,331).

State Share: The state share is equal to the total expense of the minimum guaranteed program minus the local district resources. The county assesses 12 mills for the state share of revenues to be collected, which yielded $89 million of all revenues generated. Also included in the state share are "recaptured" local resources (see Local Share).

Local Share: Computation of local resources includes the six mill levy assessed against the property valuation of the county. In those counties that house more than one school district, yield off of the six mill levy is pro-rated back to each local school district based upon the prior year's CRU's for the district. The county tax yield at six mills was $37.4 million of all revenues.

The other portion of the local resources formula includes the 25 mill levy assessed against the current property valuation of the county. The yield is added to the following revenue sources and counted in the local resources computation: (a) land income payments made to the district by the state, (b) fines and forfeitures from the county, (c) forest reserve funds through the state from the federal government based upon the national forest acreage in the district, (d) Taylor grazing revenues, (e) motor vehicle fees from the county, and (f) tuition received for out-of-district placement in the district at 75 percent. The total local revenues computation is subtracted from the foundation program guarantee, which yields the local district's entitlement for the year. The local district tax yield for 1992-93 was $154 million.

If a local district's revenue yield from the above factors is greater than 109 percent of the state foundation minimum guarantee for that district, then the district must return those local resources to the state for redistribution to other school districts through the foundation program. This constitutes the "recapture" of the state wealth. Those local resources that are below the 109 percent level but above the 100 percent level are retained by the local district.

Weighting Procedures: The formula requires the district to determine its CRUs based upon the prior school year's ADM divided by legislatively determined divisors as follows:

Level	*ADM*	*Divisor*	*Minimum Units*
Elementary:	less than 10	8	1.00
	10 but less than 27	8	1.20
	27 but less than 44	12	3.25
	44 but less than 76	14	3.60
	76 but less than 151	16	5.36
	151 but less than 301	19	9.38
	301 but less than 501	22	15.79
	501 and over	23	22.73
Junior High:	less than 51	13	2.00
	51 but less than 151	15	3.85
	151 but less than 301	18	10.00
	301 but less than 501	21	16.67
	501 and over	23	23.81

Senior High:	less than 76	10	0.00
	76 but less than 151	14	7.40
	151 but less than 301	17	10.71
	301 but less than 501	20	17.65
	501 and over	23	25.00

Adjustments for Special Factors: There are two adjustments in Wyoming. One relates to the divisors against the ADM discussed above. The other relates to the 60 day recalculation described under W.S. 21-13-308. An ADM recalculation is made the first 60 days of the current school year if the prior year's ADM is exceeded by ten percent, or if the current ADM exceeds 15 percent by February 14th.

Aid Distribution Schedule: Information not provided.

Districts Off Formula: Of the 49 school districts in Wyoming, there were five in 1992-93 that received no entitlement because their local resources exceeded the 109 percent of their guarantee.

III. TRANSPORTATION

Funding in 1992-93: $18.8 million (5.5% of total state school aid).

Description: A school district may calculate an allowance for the prior year's operation and maintenance expense for transportation routes at 75 percent of the actual expense. In Wyoming, even though school buses are considered capital outlay, one-sixth of the actual expense over the last four years is allowed for the purchase of buses used to transport pupils to and from school. This expense is calculated as a portion of the allowable reimbursable expenses.

State and Local Shares: The state share is determined by statute. For the operation and maintenance of transportation routes, the state share is 75 percent, while the district pays the remaining 25 percent.

Extent of Participation: All 49 Wyoming districts participate in the transportation program.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

There is no direct state aid provided to local districts for capital outlay or debt service.

Local Capital Project Financing

Local school districts have the following options for addressing their capital outlay and debt service requirements: (1) use of cash reserves for capital outlay (W.S. 16-4-105); (2) bonded indebtedness for capital construction (W.S. 21-13-701); (3) increased millage for capital construction (W.S. 21-13-101); (4) mill levy supplement to the state foundation program for capital construction projects (W.S. 21-15-105); (5) capital construction grants and loans (W.S. 21-15-106); and (6) implementation of a building or reserve fund account (W.S. 21-13-501).

Cash Reserves. A school district may appropriate funds from established revenue from any budget to a reserve account for capital improvements, depreciation within any capital improvements fund, and for the purchase or replacement of specified equipment. Such an appropriation assumes that a building fund has been voter approved. All 49 school districts have cash carryover at the end of each fiscal year. The dollar amount on hand varies from district to district.

Bonded Indebtedness. By voter approval, school districts may enter into bonded indebtedness up to ten percent of assessed property valuation within the district for the sole purpose of capital construction. Of the 49 districts, 31 carried indebtedness in fiscal year 1993 totaling $134.3 million.

Increase in Mills. School districts may levy one board approved mill and two voter approved mills for capital facility repair, maintenance, and renovation needs of the district. Of the 49 districts, 42, or 86 percent, of the districts used the additional mills above the required 43 mills levied for capital outlay in fiscal year 1993 totaling $11.6 million.

Mill Levy Supplement to the State Foundation Program. To assist some of the districts with low property valuation needing capital construction support, districts may apply to the state department of education for a supplement for the repayment of bonds voted for capital construction projects. The calculation is based upon the district's assessed valuation per ADM compared to the statewide assessed valuation per ADM, divided by the statewide assessed valuation. The sum of this computation is multiplied by the current year's principal and interest payments on the bonds less two mills of the district's assessed valuation. The number of districts participating in this program is not available. The total cost was $3.55 million.

Capital Construction Grants and Loans. Capital construction project funds are distributed through the farm loan board based upon statutory criteria and the local district reaching the 80 percent of value of assessed property debt limitation. This program is particularly helpful to school districts whose bonded indebtedness increased to 120 percent of the debt limitation due to declining assessed valuation. The number of districts participating is not available.

Building a Reserve Fund Account. With voter approval, a special building fund or reserve fund can be established by the school district for acquiring land, building, building enlargement, and equipping of a building. The special fund is in addition to existing bonded indebtedness. The number of districts with such a reserve account and the dollar amount are not available.

V. TEACHER RETIREMENT

Teacher retirement and FICA contributions are made by the local district from general fund revenues. All 49 districts pay all or part of the employees share of the retirement contribution at a rate of 5.57 percent of salaries. There is no state aid that directly supports such contributions. Since the state does not set teacher salaries, the payment of the employees portion is contingent upon the negotiated contracts within each of the school districts.

VI. SPECIAL EDUCATION

Funding in 1992-93: $61.8 million (18% of total state school aid).

Description: Under W.S. 21-13-309, school districts with special education students identified as having a mental, physical, or psychological handicap that impairs learning are entitled to supplementary reimbursement at 85 percent of the previous year's actual expense. Such expense includes educational diagnosis and evaluation, tuition and maintenance of children attending in another school district within the state, education services for the special education student within the district, and salaries and benefits for special education teachers. If special education students are placed out-of-state because there is not a suitable placement in-state, as judged by the state department of education, the reimbursement of the previous year's expense is at 80 percent instead of 85 percent.

State and Local Shares: School districts are responsible for 15 percent of the previous year's actual expense.

Extent of Participation: 49 districts.

VII. COMPENSATORY EDUCATION

Funding in 1992-93: $1.0 million (less than 1.0% of total state school aid).

Description: School districts apply for the funds based upon the percentage of district-wide students at or below the 20th percentile as measured by the district's standardized test, but who are not identified as learning disabled students. These students may be identified as "at-risk" or simply need some remediation in subject matter areas such as reading or math.

State and Local Shares: Local districts may contribute to the program from their general fund, but it is not required.

Extent of Participation: 46 districts.

VIII. GIFTED AND TALENTED EDUCATION

Funding in 1992-93: $0.35 million (less than 1.0% of total state school aid).

Description: Funding is based upon the local district identifying the criteria for giftedness, how they identified such criteria, and the development of a program plan to serve those students. Up to three percent of the district's total enrollment may be identified as gifted.

State and Local Shares: Local districts may contribute to the program from their general fund, but it is not required.

Extent of Participation: 32 districts.

IX. BILINGUAL EDUCATION

None.

X. OTHER CATEGORICAL PROGRAMS

Other programs that may be of interest include the Wyoming Education Trust Fund for local district innovative programs, W.S. 21-22-101 through 109; vocational education programs W.S. 21-13-309; and funding for one teacher schools, W.S. 21-13-309.

One million dollars of state support in 1992-93 was disbursed to schools for students identified as having behavior disorders.

Wyoming Education Trust Fund

In 1990-91, $10 million dollars was allocated to a trust fund. The proceeds of the fund were to be used to fund innovative grants. The grants were competitive. An independent board was established at the state level to review applications. In 1992-93, the legislature rolled the trust funds into the foundation program.

Vocational Education

Funds for the special category, vocational education, were distributed to schools to help fund courses that were deemed to be vocationally oriented. In 1992-93, the funds for that program were also rolled into the foundation program.

One Teacher Schools

Funding in 1992-93: $1.9 million (less than 1.0% of total state school aid).

Description: These schools are funded at actual expense of the previous year's operational expense up to a maximum of the current CRU value. The expenses are to include operation and maintenance of the school, excluding capital improvements.

State and Local Shares: The state reimburses the district at 100 percent of actual expense.

Extent of Participation: 21 districts.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

None.

XII. EARLY CHILDHOOD EDUCATION

None.

XIII. LOCAL SCHOOL REVENUE

Property Tax

All 49 school districts in Wyoming are required to count as local resources the following revenues generated at the local level: 25 mills times the local assessed property valuation; six county mills times the local assessed property valuation; fines and forfeitures; motor vehicle fees; tuition received for out-of-district student placement at 75 percent; land income payments; forest reserve funds; and Taylor Grazing Act revenues. Statewide averages for the 1992-93 foundation program year show fines and forfeitures, tuition received, forest reserve funds, and Taylor Grazing Act revenues accounted for 2.4 percent of the total local district revenues; the land income fund generated 21.5 percent; and motor vehicles generated 5.1 percent.

Property is assessed at the following ratios: (1) 9.5 percent of fair market value for commercial and residential property, (2) 11.5 percent for industrial property, and (3) mineral extraction industries at 100 percent.

Counties with more than one school district are required to receive the county six mills on a prorata basis as identified by the calculated CRUs of the district.

Income Tax

Not allowed.

Other Sources of Local Tax Revenue

See Property Tax above.

Tax Credits and Exemptions

None.

XIV. TAX AND SPENDING LIMITS

Tax Limits

See Section XIII — Local School Revenue and Section II — Basic Support Program: Local Share.

Spending Limits

See Section II — Basic Support Program: Local Share.

Voter Approval of Budgets and Bond Issues

Information not provided.

XV. EARMARKED STATE REVENUE

The federal government returns 50 percent of the mineral production taxes to the state, of which 44.8 percent of the returned monies is dispersed to the school foundation program.

XVI. SPECIAL TOPICS

None.

ALBERTA

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OVERVIEW

In 1993 the province began a program of restructuring education in Alberta. Simultaneously, the province began to reduce funding for education from provincial general revenues as part of an overall government plan to eliminate the $2 billion provincial budget deficit.

1993-94 and 1994-95 are transitional years to the implementation in 1995-96 of a new framework for funding education in Alberta. Prior to 1994, the funding of education in Alberta was shared between the province and local school boards, with attempts through the years to minimize and equalize the burden on local taxpayers. Beginning January 1, 1994 the province began full funding of education in the province. The province established a new Alberta School Foundation Fund (ASFF) into which tax requisitions on municipalities are deposited and from which payments to school boards are made. The tax requisitions, levied by the province, are on residential and non-residential properties. During the transition years school boards receive tax revenues approximately equal to the amounts requisitioned or budgeted for in 1993-94. An exception is Roman Catholic Separate School Districts which allowed to continue to requisition taxes directly from municipalities. The province abandoned the School Foundation Program but continues to make grants to school boards from the general revenues of the province, although some grant programs have been consolidated and others eliminated. The Basic Instruction Grants per student are continued but in 1994-95 the grants for senior high school students are based per student credit enrollment units (CEU) — the number of courses completed — rather than the number of students enrolled in senior high school grades.

Level	*1990*	*1992-93*	*1993-94*	*1994-95*
Elementary	$2,027	$2,161	$2,111	$1,938
Junior High	$2,180	$2,234	$2,270	$2,084
Senior High	$2,351	$2,506	$2,448	$64.20/CEU

Virtually all of the School Grant Program grants are reduced in both transition years and some are eliminated in 1994-95 as part of the expenditure reduction plan. The eliminations affect public, separate and private schools. In addition, a number of the special program grants are consolidated. These changes reflect trends towards simplifying the grant program, placing more responsibility on school authorities for making decisions about the application of funds to specific programs, and eliminating funding for programs that may not be cost-effective or may be the responsibility of other agencies. As part of the restructuring program, a special committee of Members of the Legislative Assembly (MLA's) is developing guidelines for a new education funding framework to be implemented in 1995. Four other MLA committees are to make recommendations on the regionalization and amalgamation of school boards; redefining the roles and responsibilities of parents, school councils, school principals and teachers, school board trustees and superintendents and Alberta Education; and accountability framework and performance measures; business involvement in schools and the integration of technology in the education system. Both provincial public and separate school board associations are challenging in court the changes to the funding of education.

I. GENERAL BACKGROUND

- Prior to 1994, locally elected school boards and the province jointly funded education. Beginning January 1, 1994, education in Alberta is fully funded by the province for all schools in public school districts. School boards in Roman Catholic separate school districts are responsible for a portion of funding through tax requisitions on municipalities. Eligible private schools receive funding from the province equal to approximately 75% of the basic per student grants. In 1993-94 the province provides approximately 58% of the revenues for education. Local school authorities receive approximately 37% from tax requisitions and the balance of 5% from other sources. In 1994-95 it is estimated that the provincial contribution will decline to 55% as the province reduces education spending by approximately $37 million as part of the province's deficit reduction plan. Provincial funding for education is expected to continue to decline through 1996-97. 1993-94 and 1994-95 are transition years from the previous funding model to a new funding framework.

- Revenues for funding education come from provincial general revenues, a provincial tax requisition on non-residential property and, beginning in January, 1994, the tax revenues from requisitions on residential and non-residential property formerly levied by locally elected school boards. The funds are distributed through a system of block and program grants. The amounts for which school authorities are eligible are based for the most part on the number of students enrolled or served, or specific program criteria. The province has established an Alberta School Foundation Fund into which the tax requisitions from locally levied taxes are to be deposited. The funds will be distributed to school districts during the transition years on the basis of the amounts requisitioned from municipalities in 1994 or budgeted for in 1993-94. Until 1994 capital construction was jointly funded by the province and local school boards. Funding is provided for private and public Early Childhood Education Programs(ECS), publicly funded public and Catholic separate schools, and private schools.

- The province has established a committee of Members of the Legislative Assembly (MLA) to develop a new education funding framework for implementation in 1995. As part of the restructuring of education, four other MLA committees are to make recommendations regarding the regionalization and amalgamation of school districts; redefinition of the roles and responsibilities of parents, school councils, principals and teachers, school trustees and superintendents, and Alberta Education; and accountability framework which will utilize performance measures; the involvement of business in education and improving system efficiency through the application of technology.

- The Alberta Catholic School Boards Association and the Public School Boards Association have begun legal challenges to the provinces restructuring initiatives, specifically those having to do with the funding of education and the authority of school boards.

1993-94 Statistics

Number of School Jurisdictions (Includes public, separate, county, division and consolidated districts)	145
Number of schools (excluding private schools)	1,581
Total Student Enrollment (including ECS & Private)	532,300
Number of Registered Private Schools	110
Total Private School Enrollment	14,300

Funding Summary

	1993-94	1994-95
Provincial Contribution(e) (includes $118.9 million for the Teachers Retirement Fund)	$2.09 billion	$1.84 billion
Local Contribution (e) (collected & distributed provincially)	$1.09 billion	$1.12 billion
Total Combined Revenue	$3.18 billion	$2.96 billion

II. THE BASIC SUPPORT PROGRAM

In 1993-94 approximately 75% of the provincial grants to school jurisdictions are distributed through the School Foundation Program Fund (SFPF) which is funded 85% by the general revenues of the province and 75% by a provincial tax requisition on municipalities on non-residential property. In 1994-95 the SFPF was disbanded although the general revenue fund GRF) and the provincial tax requisition were retained as revenue sources. The amount of the SFPF requisition is determined annually by the province. The grant programs in the SFPF/GRF include Basic Instruction grants per student, Transportation grants and Capital construction grants.

Basic Instruction	*1993-94*	*1994-95*
Elementary/student	$2,111	$1,938
Junior High/student	$2,270	$2,084
Senior High (per student/CEU)	$2,448	$64.20/CEU

Until 1994-95 the grant program was based on a flat grant system. There were basic instruction per student grants for students enrolled in elementary, junior high and senior programs. In 1994-95 the senior high student grants are based on courses completed (CEU) by students who complete courses. Enrollments are counted twice yearly, September 30 and May 30, and the average is the official count for grant purposes. The number of courses completed by senior high school students and reported to Alberta Education is the basis for determining the amount of the senior high school grant. The original weighting system for the three levels of grants has been abandoned. The province determines from year-to-year the amount of the per student grant. The grants are expected to continue to decline until 1996 as part of the province's deficit reduction plan.

III. TRANSPORTATION

The province provides different types of support for student transportation in rural areas and urban areas, provides special support for disabled students, and maintenance grants for students required to live away from home to attend school. School jurisdictions are eligible for student transportation grants if a student resides at least 2.4 kilometres from the school designated by the jurisdiction for the student to attend. This distance requirement does not apply in the case of transportation of disabled students. The province provides basic block funding support to the four largest urban school jurisdictions. In 1994-95 rural transportation grants are changed from a per diem based on bus size to a grant based on a rate per kilometre with a factor for passenger load. There is also an annual allowance for fixed costs. Transportation grant support is expected to continue to decline until 1996 as part of the province's plan for deficit reduction.

	1993-94	*1994-95*
Rural	Per diem based on bus size	Per annum based on passenger load and a per kilometre rate from the first kilometre
Urban	$255 per passenger	$242 per passenger

Special	$1,454 per passenger	$1,381 per passenger
Urban Block	$338 per expected passenger	$321 per expected passenger
Maintenance	$2,192 per funded student	$2,082 per funded student

IV. CAPITAL OUTLAY AND DEBT SERVICE

Capital Approval and Funding Procedures

Capital projects must be approved the School Buildings Board before receiving provincial funding. School jurisdictions are required to annually submit their capital project applications in order of priority. The School Buildings Board ranks all projects on a provincial basis before approving those of highest priority. Only those projects that fit within the constraints of the School Capital Funding Plan are funded.

The actual financing of projects that exceed $100,000 in provincial support is usually through debenture borrowing from the Alberta Municipal Financing Corporation (AMFC) with the prior approval of the Local Authorities Board (LAB). Fro projects equal to or less than $100,000 in provincial support, financing can be done through short term loans (five years or less), or in the case of Building Quality Restoration Projects (BQRP) by way of an outright grant. Provincial support is based on the proportion of the debenture that relates to the probincially supported portion of the project. Actual grant payments equal the supported principal and interest repayment installments that the board will have to pay in a given year. The unsupported portion of the the debenture payments are financed through the local school board's property tax base. Within specific limits, the provincially supported portion (average support is close to 60 percent) varies in direct proportion to the utilization of school space by the school board, and in inverse proportion to the school jurisdiction assessment per student.

Beginning January, 1994, the province assumes responsibility for full funding of capital projects. A portion of the cost will continue to be supported by local taxes levied provincially. The five-year $700 million capital plan for 1991-95 has been protracted to allow for cost reductions during the years of the province's deficit reduction plan.

V. TEACHER RETIREMENT

Starting September 1, 1992, the province changed the way it contributes to the Teachers' Retirement Fund. Instead of funding 50% of the benefits paid to retirees each year, the province now matches the teachers' contributions into the fund. Also, the government is paying an additional contribution to assist in discharging the plan's unfunded liability.

VI. SPECIAL EDUCATION

Special education grants are provided to assist school jurisdiction in delivering programs for students with educational disabilities as well as programs for gifted and talented students. In addition, funding is provided for those exceptional students who are institutionalized or homebound. School jurisdictions are eligible for the following grants:

Special Education Block Grant

Provides funding for the identification, assessment, programming and placement of exceptional students in different programs or an adaptation or modification to the regular school program. The Enhanced Opportunity Grant for the 4 largest urban boards is now targeted to those schools with intervention programs for high risk students.

1993-94	*1994-95*	
$178	$169	per resident student

High Incidence Grant

Provides funding to school jurisdictions that experience a greater than average percentage of severely handicapped students. Jurisdictions receive a grant for each severely handicapped student in excess of the provincial average incidence, currently about .75%.

1993-94	*1994-95*	
$9,415	$8,944	per severely handicapped resident student above the benchmark incidence rate

Resident Students of Government Grant

Provides funding to school jurisdictions in support of approved education programs for students who are in unorganized territories, or are in custody under the Corrections Act, Penitentiary Act, or Young Offenders Act, or who are in custody under the Welfare Act, or who are in long-term medical care in an institution. The grant is based on the number of students qualifying, the nature of the student's needs, the program provided, and the duration of the placement.For 1993-94 and 1994-95, the actual cost per student is provided.

Institutional Support Grants

Provides funding to school jurisdictions which operated educational programs for students in approved institutions or group homes. The grant entitlement is based on the number of approved teaching positions in the institutions. The grants are expected to decline until 1996 as part of the province's deficit reduction plan.

1993-94	*1994-95*	
$23,239	$22,077	per teaching position

VII. COMPENSATORY EDUCATION

See Section VI. Special Education Block Grant

VIII. GIFTED AND TALENTED EDUCATION

See Section VI. Special Education Block Grant

IX. BILINGUAL EDUCATION

The province provides support to school jurisdictions for programs that enable students to learn French, one of Canada's official languages, programs in English as a second language for students who have recently arrived in Canada and require special assistance in learning English, and programs for students who wish to acquire or maintain languages other than English or French. School jurisdictions are eligible for the following grants:

French Language Program Grants

Funding is for French Immersion or French Second Language courses. Provincial funding is integrated with funds available from the Government of Canada, and is distributed on the basis of the grant applicant's count of full-time equivalent students in the program.

1993-94	1994-95	
$349	$332	per elementary student served
$427	$406	per secondary student served

English as a Second Language Grants

The grant is paid on the basis of the number of eligible students in the program, Students in this program are eligible for funding for three consecutive school years.

1993-94	1994-95	
$684	$650	per served student

Grants for Languages Other Than English or French

The grant is paid on the basis of the grant applicant's eligible student count for students in partial immersion bilingual programs or second language courses in languages other than English or French. The grants are expected to decline until 1996 as part of the province's deficit reduction plan.

1993-94	1994-95	
$129	$123	per served student

X. OTHER CATEGORICAL PROGRAMS
EQUITY GRANTS

Fiscal Equity Grant

The Fiscal Equity Grant compensates school jurisdictions for factors which contribute to inequities and which are beyond the control of a jurisdiction. These factors are represented by three components: fiscal capacity, sparsity and distance. Under each component a benchmark is set in order to determine which jurisdictions experience the greatest inequities.

The majority of the equity funding is distributed under the fiscal capacity component. The further a jurisdiction's assessment per student is below the provincial average, the larger the grant per resident student. Jurisdictions wealthier than the provincial average for fiscal capacity will have their sparsely and distance funding reduced, since they can afford to pay for any higher local costs out of revenues generated from their local tax base.

The sparsity component provides funding for jurisdictions that serve sparsely populated areas. This component is intended to compensate for higher per student costs caused by low pupil/teacher ratios and necessary smallness of schools. Sparsity is measured on the basis of jurisdiction area divided by the resident student count, and adjusted for the proportion of students living in smaller municipalities. Therefore, the higher the sparsity measure, the larger the grant per student.

The distance component provides funding support for jurisdiction which operate at a distance from major supply centres. The greater the distance from the school jurisdiction office to the nearest major city the higher the grant per student. The three components are added together to determine the jurisdiction's "equity potential" for that year. The actual equity grant is based on the difference between a jurisdiction's current year "equity potential" and the previous year's grant.

	1993-94	1994-95
Yield Benchmark	$1,907	$1,975
Benchmark Mill Rate	10.3	10.35
Sparsity Rate	$350	$350
Distance Rate	$.30/$.10	$.30/$.10

The Fiscal Equity Grant is expected to be modified with the introduction of a new funding framework in 1995.

Distance Learning Program Grant

The Distance Learning Grant provides qualifying school jurisdictions with funding to enable low enrollment senior high schools to offer a wider range of student courses using distance education technology. The distance learning system provides the student with access to components of effective learning such as

well designed learning materials, instructional support, interaction with a tutor and evaluation. To qualify schools must have fewer than 150 senior high school students. Qualifying schools receive a base rate plus a rate per credit offered via distance learning services. The grants are expected to decrease until 1996 as part of the province's deficit reduction plan.

	1993-94	*1994-95*
Base rate	$34,514	$32,788
Rate per credit	$102	$97

Vocational Education Program Grant

Vocational Education programs and courses are available to Alberta high school students who wish to develop skills in a number of trade, service or technology oriented career fields. They are able to progress through the preparation levels so that they may leave high school with job entry skills leading directly to employment or to further training and education.

Grants for vocational education courses are distributed on the basis of a dollar rate per credit enrollment unit. Students who have difficulty in regular secondary school programs, and who require further training, are assisted through the provision of the Integrated Occupational Program (IOP). IOP programs are funded on the basis of a dollar amount for each student enrolled in an approved IOP to a maximum total figure of 5% of the resident student population, Grades 8 - 12. The grants are expected to decrease until 1996 as part of the province's deficit reduction plan.

	1993-94	*1994-95*
12/15 level	$22 per CEU	$21 per CEU
22/35 level	$43 per CEU	$41 per CEU
Integrated Occupational	$814 per student	$773 per student

Extension Program Grants

Through 1993-94 the province provided financial support to school jurisdictions for programs for students attend school outside the regular school hours or during the summer. The grant was paid on the basis of a dollar rate for each enrollment course hour or for each eligible special education extension student with ceilings on the amount an eligible school jurisdiction could receive. In 1993-94 the rated for adult basic extension programs was $5.30 per enrollment course hour. The rate for day, evening and summer courses was $4.30 per enrollment course hour. The grant was eliminated in 1994-95 as part of the province's deficit reduction plan.

General Education Grants

In 1993-94 six General Education Grants were consolidated into a General Education Block Grant. These grants included: Native Education grants for the development and implementation of native education programs; School Food Services grants to provide of school lunch programs for schools in predominantly northern native communities; Community Schools grants to assist designated community schools to implement community school services and programs (the number of designated community schools had been frozen at 66); Secondary Education Implementation grants to assist school jurisdictions purchase new learning resources and provide teacher inservice for the implementation of the new Secondary Education curriculum; Regional Resource Centre grants to assist school jurisdictions outside the two largest cities provide film and learning resources on a regional basis; Early Childhood Small Centre grants to help offset the higher costs of small ECS operators in rural areas. the 1993-94 block grant was equal to 92% of the 1992-93 grant entitlement. In 1994-95 all but the Native Education grants and the School Food Services grants were eliminated. The 1994-95 block grant is equal to 95% of the 1993-94 entitlement.

XI. AID FOR PRIVATE SCHOOLS

The province has established two categories of private schools, accredited and registered. Funding is provided to accredited private schools which employ certificated teachers, follow the Alberta curriculum, have students write provincial achievement tests and diploma examinations, and meet provincial health and safety standards. Private school grant rates are approximately 75% of the public school rates. Accredited private schools are eligible for Basic Instruction, Extension (1993-94), Special Education Block, Transitional, General Education Block (1993-94), and Resident Students of Government grants. The grants are expected to be reduced until 1996 as part of the province's deficit reduction plan.

	1993-94	*1994-95*
Basic Instruction		
Elementary	$1,582/student	$1,453/student
Junior high	$1,702/student	$1,563/student
Senior highup to	$1,836/student	$48.15/credit completed
Extension	$3.20/enrol't course hr.	ELIMINATED
Special Education Block	$133/student	$126/student
Transitional		
in lieu of Specific Programs	$125/funded student	$119/funded student
in lieu of Specific Special School programs	$850/funded student	$808/funded student
General Education Block Grant entitlement	$92% of 1992-93	ELIMINATED
Resident Students of Government	actual cost/ student	actual cost /student

XII. EARLY CHILDHOOD EDUCATION

Early Childhood Services (ECS) programs are voluntary programs offered by school jurisdictions and private ECS operators to meet the developmental needs of children in the transition from home to school. To qualify a child must be a minimum of 4 years and 6 months on September 1 of the year in which he/she is counted. Approved ECS operators that offered programs are eligible to receive a basic instructional grant, transportation grants, grants for special needs children and Program Unit grants. The grants are expected to be reduced further until 1996 as part of the province's deficit reduction program. Some grants are under review and one is eliminated in 1994-95.

	1993-94	*1994-95*
Basic Instruction	$1,239/child (blended rate)	$595/child
Transportation		
rural & urban	$2.25/round trip	ELIMINATED
Special$8.65/round trip		$8.65/round trip
Special Needs		
mild and moderate	$1,360/child	Guidelines being developed
Program Unit		
severely handicapped	up to $20,637 per unit	Guidelines being developed

XIII. LOCAL SCHOOL TAX REVENUE

In Alberta two assessment bases are used in determining education taxes and will continue to be used under full provincial funding during the transition years, 1993-94 and 1994-95, to a new funding framework. Live or taxable assessments are used by municipalities to determine the taxes levied on each property owner. Since municipalities conduct their general property assessments at different times a valid comparison of their wealth using live assessment is not possible. To do so would inequitably distribute the contribution by each municipality to the various cost-shared programs. Equalized assessment, calculated by the province's Assessment Equalization Board every year, is used to approximate each municipality's total assessment as if they had just completed a general property assessment in the previous year.

Assessment for land is based on 65% of fair market value. Building assessments are based on 65% of their current replacement cost, less depreciation since the last general assessment. Farmland is valued at 65% of its economic value.

Supplementary Requisitions are the local tax revenues received by the province to cover expenditures not funded by the province. The province requisitions the municipality for the necessary funds and the municipality raises the required revenues from their live assessment base.

The provincial government also requisitions other revenue from the property tax base. A levy is applied against municipalities on the basis of their equalized assessment on non-residential property - residential and farmland is exempt.

In 1993 - 94 it is estimated that $1.09 billion in revenues for education will be raised from tax requisitions on municipalities. In 1994-95 it is estimated that the local contribution to education funding will increase to $1.13 billion.

XIV. TAX AND SPENDING LIMITS

Until 1994 school boards determined the size of their operating budgets by using supplementary requisitions to make up the difference between their total expenditures and the provincial grants. There were no proscribed limits on spending or locally requisitioned tax revenues although the Minister of Education has the authority under the School Act to regulate the amount of money a board may requisition form a municipality.

School boards were permitted to budget for a surplus or a deficit without being required to consume a surplus or recover a deficit in the following year. They are not permitted to have operating reserves but may establish capital reserves.

XV. EARMARKED PROVINCIAL REVENUE

Beginning January 1, 1994, taxes raised for education by requisitions by the province on local municipalities are deposited in a new Alberta School Foundation Fund. The revenues in this fund may be used only for payments to school jurisdictions. Money appropriated by the Legislative Assembly for funding grant programs may be used only for the grant programs identified and approved by the Legislature.

BRITISH COLUMBIA

I. GENERAL BACKGROUND

In 1993/94, British Columbia had 554,194 F.T.E. students funded in public schools in the K-12 program. More than half of these students are concentrated in the metropolitan areas of Vancouver and Victoria. In the province's 75 school districts, enrollments range from as few as 355 students in rural areas up to 54,000 students in Vancouver. In addition, there were 49,242 F.T.E. students enrolled in the 330 independent schools.

II. BASIC SUPPORT PROGRAMS

Block Funding System

On January 31, 1990, the Minister of Education announced changes to the system for funding public schools for the 1990/91 school year. The new system was based on a "block funding" concept, recommended by the Royal Commission on Education. Under this system, the government allocates an overall block of public funds from provincial general revenue for public education in the province determined by taking a provincial average per pupil amount and multiplying by the number of funded students. The initial per pupil block amount was established by taking all budgeted expenditures approved by Boards for the 1989/90 school year. (exclusive of debt service costs) and divided by the number of students at that time. This per pupil block amount has been adjusted annually for changes in mandate and economic factors. The block is distributed by the Ministry of Education to school districts using a resource cost model called the "fiscal framework", This system takes into account individual characteristics of school districts, such as size, remoteness, and different requirements of students in the system, based on such factors as grade levels and special needs. The block is funded entirely out of provincial government revenues, which now include residential school taxes.

In 1993/94, there were 554,194 FTE students funded in public schools, and the per pupil block amount was $5,700. This generated $3.2 billion.

Building the Block

The base block was established by using 1989/90 spending levels and included:

- the operating budgets of school boards,
- Annual Capital Allowance (used by districts to maintain buildings, such as installing new roofs, and changes to classrooms for shelving, computer labs, sinks, flooring, etc),
- Local Capital (used by districts to purchase new equipment or to make site improvements, such as playground equipment or paving), and
- Teacher Pension Costs.

The 1989/90 base block totaled $2,416 million. This was divided by the number of students to determine the Per Pupil Block Amount of $4,954.

Annual Adjustments to the Block

The Per Pupil Block is adjusted annually for:

- Economic Factors which takes into consideration:
  - price inflation over the previous twelve months,
  - public and private wage settlements,
  - current and projected revenues and expenditures for the province,
  - the nature of the economy, and
  - government's ability to pay;
- Changes in mandate.

Since 1989/90, the following adjustments to the per pupil block amount have been made:

	Economic Factors	*Mandate*	*Resulting Block per pupil*
1990/91	$305 (6.17%)	$0	$5,259
1991/92	$198 (3.75%)	$43	$5,500
1992/93	$132 (2.40%)	$29	$5,661
1993/94	$0 (0.00%)	$39	$5,700
1994/95	$57 (1.00%)	$25	$5,782

Changes in Enrolment
FTE funded enrolment has increased over this time period.

1989/90	487,751
1990/91	507,397
1991/92	527,845
1992/93	540,390
1993/94	554,194

As a result, the total block amount has increased from $2.416 Billion in 1989/90 to 3.159 Billion in 1993/94. This is an increase of 31% over five years.

Allocating the Block

The block funding system determines the overall level of funding for school boards. However, in order to provide equal educational opportunities for all students, this average per student amount could not be applied to each school district. To determine the appropriate amount for each district, a resource cost model called the fiscal framework was used.

The Fiscal Framework was introduced in 1984. It is a model which attempts to describe an appropriate educational program, and to attach specific district costs to its delivery in order to determine acceptable funding levels.

The fiscal framework is made up of approximately 70 formulae, each describing an appropriate educational activity that might occur in each district. These activities or programs are grouped into four functions. These broad educational service areas (Functions) include: "Instruction", "Administration", "Operations and Maintenance", "Transportation and Housing".

The service levels and cost factors result in variations in funding recognized by the fiscal framework. *Service levels* define an amount of educational activity required to deliver a standard level of educational service. More intensive services are required for special needs students. As a result, districts with a greater proportion of special needs students tend to have higher funding levels.

Cost factors reflect the relative cost of providing the service described in the service levels in each district. Higher transportation costs are experienced in districts that have students traveling long distances to school; higher heating costs occur in districts with colder climates; higher freight costs occur in districts which are further away from large centres. As a result, districts with higher costs in providing services tend to have higher funding levels.

The cost identified for each program in the fiscal framework is calculated using the service levels and cost factors (see Diagrams below). The resulting allocations are summed to the function level. The total of the four functions is the total fiscal framework amount.

The following diagrams provide an example of how the service levels and cost factors are applied.

STEP 1:

Number of Students x Standard level of service = Number of Teaching Units

STEP 2:

Number of Teaching Units x Cost of a teaching unit = Funding in $

Example: Grade 4-7 Instruction:

STEP 1:

520 students / Class size of 26 students = 20 teaching units

STEP 2:

20 teaching units x $55,400 = $1,108,000

Reconciling the Block and the Fiscal Framework

As described above, the current funding system is a blend of two independent systems: the Block and the Fiscal Framework.

Since the two systems generate two sets of funding, the systems are linked through a factor called the "gross-up". The gross-up is the factor that is applied to each district's fiscal framework to bring it up to the Block levels. Since the fiscal framework is based on 1989/90 costs, and the Block has been inflated by economic adjustments over the years, the gross-up in 1993/94 was 112.19%.

Components of the District Block

The block of funds available to school districts is divided into two sections:

1. The portion of the Block that is allocated for specific purposes

There are three purposes for which specific funding is identified within the Block. These are Learning Resources, Accreditation, Education Change and Annual Capital Allowance.

Of the funds for Learning Resources, a part is held by the Ministry and allocated on behalf of school districts for the "Credit Allocation Plan" or for the purchase of video acquisition rights, and the remainder distributed to school districts through targeted grants for the purchase of recommended learning resources.

Funds for Annual Capital Allowance, Accreditation and Education Change are sent to school districts, but are provided to the district for specific uses.

2. The Unallocated Block of Funds

The majority of funding provided to districts (98%) is through the Unallocated Block. The unallocated block is available for school boards to budget in any program area. There are three restrictions on this allocation for 1994/95: minimum amounts must be spent on Special Education and Aboriginal Education, and a maximum amount is established for Administration.

Recalculating the Block Funding System

The block of funds is allocated to school districts in February of each year based on projected enrollments. This projected allocation enables districts to set budgets for the school year commencing July 1st.

Once actual enrollments are identified, the Block is recalculated using actual September 30th enrolments and other updated cost factors, and revised grant schedules are established.

The timelines around the recalculation of the Block are as follows:

September 30th	enrollments are recorded by schools
October	data received by the Ministry
November	corrections and adjustments made to the data
December	the block is recalculated and revised grant schedules announced
January-March	random enrollment audits are made by the Ministry and grants adjusted where appropriate

Reviewing the Block Funding System

Although the Government establishes the overall levels of funding for the block, the Minister of Education is responsible for the allocation of the block among the 75 school districts. To assist the Minister in reviewing this process, the Ministry has established a number of processes over the past three years to examine the allocation system.

June 3, 1992, the Education Funding Review Panel was established to undertake an independent review of the public education funding system. The objective of the review was to develop consensus on an affordable system of education funding that is fair, stable and predictable. The final report of the Review was released on December 17, 1992.

The final report is based on information from submissions and regional meetings involving a wide range of education partners and the public. In response to the report, on April 13, 1993, three committees were established to address the recommendations of the Review and to provide advice to government on how best to build on the process and work that was undertaken in 1992. The focus of these committees was to make recommendations to government on how the current education funding system could be made more equitable, predictable, understandable and accountable. The recommendations that related to funding were set aside, because they resulted in significant redistribution, and were criticized by some districts as unfair. A further review undertaken by the Ministry has been initiated for implementation in 1995/96.

Budgeting and Accounting Systems

Each year, School Boards are required to identify sources of revenue and establish planned budgeted expenditures to match the revenues available.

The Block and School District Revenues

The block is the primary source of funding for school districts. In addition to the block, funds are identified for debt service payments, and other specified grants described below. In 1993/94, the block plus debt service payments accounted for 97.4 percent of total school district budgets.

In addition to the grants from the Province, school boards may draw on additional funds from local revenue sources, operating surpluses, and through referenda. These local revenue sources include the rental of buildings, investment income, federal French grants and continuing education fees. Boards may also retain surpluses from previous years. Referendums may be held to raise additional funds for specific projects identified in the referendum. The funds must all be raised in the year in which the referendum is held, and budgeted as revenue in the following school year.

For the 1993/94 school year, the sources of revenue were as follows:

Unallocated Block	$3,057,864,041	87.72%
Education Change	8,278,292	0.24%
Annual Capital Allowance	34,494,550	0.99%
Accreditation	2,737,779	0.08%
Local Revenue (net of Special Purpose Grant)	75,994,373	2.18%
Operating Surplus	16,129,997	0.46%
Referendum	0	0.00%
Debt Services (plus Debt Service Surplus)	290,376,222	8.33%
Total Budgeted Amount	$3,485,875,254	100.00%

By February 1st, the Minister of Education announces the provincial average per student amount for the next school year. Approximately four weeks later, the individual district's estimated block amounts based on projected enrolments are announced by the Ministry. Districts then review their revenue targets, and may hold a referendum to raise additional amounts. The decision to hold a referendum must be made at least two weeks prior to the date of the referendum. The referendum is held on the third Saturday of April. The budget bylaw is passed on or before April 27th.

Funding the Block

Commencing in the 1990/91 Provincial Fiscal Year, the Province assumed responsibility for the school tax component of residential property tax. Along with the school tax component of non-residential property tax, amounts were identified as revenue for the Province.

Of the total provincial revenue of $15,260 million budgeted for 1994/95 Provincial fiscal year for all provincial programs, 4.4% was estimated to be raised from non-residential property tax and 3.1% from residential property tax.

Taxes for residential and non-residential property are collected in the calendar year. This time frame differs from both the school year and the provincial fiscal year. For example, the school year is composed of six months (July - December) of one calendar year, and six months (January - June) of the next year.

Non-Residential Taxation

In the 1994 calendar year, non-residential taxes are estimated to total $665 million.

By class, the total amounts raised are as follows:

		Assessed Value	*Tax Rate*	*Taxes*
2	Utilities	$12,292,789,413	15.2	$186,850,399
3	Unmanaged Forest	17,992,830	12.5	224,910
4	Major Industry	4,995,989,933	12.7	63,449,072
5	Light Industry	2,623,914,244	10.2	26,763,925
6	Business/Other	36,823,100,770	10.2	375,595,628
7	Managed Forest	574,388,491	6.2	3,561,209
8	Rec/Non-profit	1,037,165,516	4.0	4,148,662
9	Farm	648,648,230	6.9	4,475,673
TOTAL		$59,013,989,427		$665,069,478

Residential Taxation:

In the 1994 calendar year, residential taxes are estimated to total $470 million. This amount is determined by reducing the amount of gross property tax for school purposes $883 million by the estimated Home Owner Grant of $413 million. For residential properties, tax rates varied between school districts.

Taxes for each district are calculated using a tax framework. The basic elements of this tax framework are as follows:

1. The Ministry of Finance and Corporate Relations determines the amount of money to be raised from residential taxation to support the public education

2. Half of the total provincial amount to be raised is divided by the number of residences in the province to determine a rate per residence.

3. Half of the total provincial amount to be raised is divided by the total assessed value of residential property in the province to determine a rate on assessed value.

4. The total school property tax requisition for each school district is equal to the rate per residence times the number of residences in the district plus the rate on assessed value times the total residential assessed value within the school district.

5. A tax rate for each district is determined by taking the total school property tax requisition and dividing by the total residential assessed value within the school district.

Homeowners who reside in their home are eligible for a base homeowner grant of $470 ($720 for seniors).

III. TRANSPORTATION

Funding for transportation is included in the block of funds (see section 2 and the description of the fiscal framework). Funds are recognized for transportation based on actual costs per kilometer, and on the number of approved bus kilometers. Funding is generated by multiplying the approved bus kilometers by the cost per kilometer.

Additional funds are identified for Water Transportation and Transportation Assistance, as well as Special Program Transport (for extra-curricular transportation for special needs students), and Student Housing.

Each district may set walk limits to meet the local requirements in the community. However, the Province determines funding based recognizes

IV. CAPITAL APPROVAL AND FUNDING PROCESS

Capital projects must meet with the approval of the Ministry of Education and Treasury Board before receiving funding. School districts are required to submit annually their capital project applications ranked in order of priority together with a five year capital plan. The School Facilities Branch then ranks the projects on a provincial basis and approves the highest priority projects for that year within the available funding.

For administration purposes capital projects are segregated between minor projects (up to $1,500,000) and major projects. Day to day funding is financed by the province and controlled through lines of credit with chartered banks and other financial institutions. A separate line of credit is established for each major project. Most minor projects are covered by one line of credit for each district. These lines of credit establish borrowing authority for capital projects. In addition, prior to expending funds on a particular project, the district must have specific spending authority from the Ministry.

The temporary borrowings made under the lines of credit are repaid by debenture borrowings from the B. C. School District Capital Financing Authority. Debentures are sold for periods of 15 to 30 years for long term assets such as new schools, and for periods of 7 to 12 years for shorter term assets such as equipment and buses. All debentures are retired by sinking funds, which are invested funds that build up over time to repay the debentures.

The principal payments into the sinking funds, the interest payments on the debenture debt, and the interest on the lines of credit form the debt service expenditures of school districts. Grant payments are made to school districts twice a month to fund their estimated debt service expenditure for the year.

Debt service payments made by school districts in 1993/94 totalled $290.4 million.

School districts may also fund some capital expenditures from their capital reserves.

School District Capital Funding

The Government of British Columbia has expanded the capital expenditures over the past five years as follows:

1988/89	$142 million
1989/90	250 million
1990/91	350 million
1991/92	650 million
1992/93	582 million
1993/94	561 million

V. TEACHER RETIREMENT

Funding for the employer's portion of teacher pensions is included in the block of funds (see the description of the fiscal framework). School districts are now required to pay these expenses directly to the Superannuation Branch for teacher pensions. Funds for teacher pensions are allocated to school districts using formulae identified in the fiscal framework. The employer's share is recognized on the basis of 9.03% of base salary for the first $34,400, and 10.53% for the remainder.

Total funds established for pensions in the initial Block were $140.0 million.

VI. SPECIAL EDUCATION

Funding for special education is included in the block of funds (see the description of the fiscal framework). School districts identify students with special needs each September. The school district receives additional funds for these students based on the service levels and cost factors identified in the fiscal framework. Funding identified in the fiscal framework includes the cost of providing classroom instruction, as well as the cost of additional classroom support required for those students.

In 1994/95, $362 million is identified for Special Program support.

VII. COMPENSATORY EDUCATION

There are a number of grants that are provided by the Province to recognize the unique socioeconomic factors in the different districts. These include: the E.S.L. turnover grant, the Inner-City school grant, and the School Meals Program. Details of these grants are provided in Section X — Other Categorical Programs.

VIII. GIFTED AND TALENTED EDUCATION

Funding for gifted students is included in the block of funds (see the description of the fiscal framework). Funding identified in the fiscal framework includes the cost of providing classroom instruction, as well as the cost of additional classroom support required for those students. Funds for gifted are considered part of the Special Program Support.

IX. BILINGUAL EDUCATION

Funding for language programs is included in the block of funds (see the description of the fiscal framework). A number of languages are identified in the fiscal framework for funding purposes. These include:

a. Core French
b. French Immersion
c. Programme Cadre
d. Mandarin
e. Japanese
f. English as a Second Language
g. Aboriginal Programs (which may include First Nations language studies)

Total funds identified in the block for these programs was $30 million.

X. OTHER CATEGORICAL PROGRAMS

In addition to the block, there are targeted funds that are established by the Ministry for specific purposes. These funds are reviewed annually and established at levels that meet the emergent school system needs at that time. The funds may also provide support to a specific student population. These funds for 1993/94 include:

Debt Servicing of Capital Construction costs

Funding: **$287 million**

These funds were specifically provided to finance the debt for minor and major capital construction costs that had been approved by the province.

Special Education Staff Development Grants

Funding: **$3 million**

A total of $3 million is available to districts on application to provide in-service training for teachers and teacher assistants, to provide peer support to teachers integrating students with special needs, and to support the development and improve the effectiveness of school-based teams in providing on-site response to classroom teachers integrating students with special needs.

School Meals

Funding: $11.6 million

The Province provides separate funds to assist schools that have developed school meal programs for needy students. Fees for children participating in school meal programs are based on ability to pay, and parents contribute anonymously. Funding is provided by the Ministry for programs that meet the eligibility criteria in communities with the greatest need. Applications for funding are reviewed on an annual basis. Funding is currently provided for 35,000 students in 305 programs.

Inner-City Schools

Funding: $2 million

These funds are intended to provide a coordinated, integrated approach to meeting the needs of students in inner city communities. These funds enable pilot projects to be established. Funding is determined based on a review of the applications from districts for specific inner-city school proposals.

Growth after September 30th

Funding: $2.4 million

This grant recognizes growth that may occur in schools between September 30th and January 31st (for elementary) or February 28th (for secondary). The grant is based on growth of more than 2% in a school's population (with a minimum of 4 students), and the district's per pupil amount (pro-rated over the balance of the year). These grants are finalized in March.

E.S.L. Turnover

Funding: $3.7 million

This grant is intended to recognize the additional cost associated with E.S.L. students who require services when they first arrive in the district. The grant is based on students in E.S.L. programs in September who were not in the district in the previous September. An amount of $10,000 for each district with new E.S.L. students enroled plus $250 for each new student is recognized. These grants are finalized in February.

Provincial Resource Programs

Funding: $22 million

Provincial Resource Programs (PRPs) are intended to meet the educational needs of students in exceptional circumstances. These programs are operated in cooperation with several other provincial ministries including the Attorney General, Health and Social Services. They enable students to continue learning while in hospitals, treatment centres or containment centres. Funding for these programs is determined after a review of the budgets submitted by districts each year.

Regional Correspondence Centres

Funding: $14 million

Regional Correspondence Centres provide an alternative for students by offering correspondence education for those students who prefer this method of learning to classroom instruction or want to take a course not offered in their local school system. Correspondence education also serves the needs of students who may not have access to a school because of geographical remoteness.

Students may enrol in one of nine regional correspondence schools. Funding for these students is provided through a unique formula allocation system and is separate from the Block funds for the district. Funding is identified on a quarterly basis depending on the number of students enrolled, and their completion rates.

Alternatively, students may be enroled in a school district or independent school and take individual courses offered at the correspondence centre. In these cases, funding is provided within the Block or grant to the independent school and the school pays a fee ($250) for the course.

XI. INDEPENDENT SCHOOLS

Funding for independent schools is available for qualifying schools. Funds are provided at a percentage of the block (50% or 35% depending on the classification of the school). Total funds budgeted for independent schools in 1993/94 was $105.9 million.

Parents may also opt to educate their children at home. These children must be registered at either a public school, independent school or a correspondence centre. Funding for these children is provided to the school districts/ independent schools/ Correspondence Centres to allow them to assist parents with evaluation and assessment activities. This funding was based on 0.0625 FTE per child.

XII. EARLY CHILDHOOD EDUCATION

None.

XIII. TAX AND SPENDING LIMITS

Taxes for school purposes are collected on behalf of school districts by the Province. In addition, school boards may raise additional amounts through taxation by local referendum.

Section 128 of the *School Act*, sets out the procedures to be followed in holding a referendum:

1. The deadline for boards to authorize the holding of a referendum is two weeks prior to the date of the referendum. The authorization is by resolution passed at a public meeting of the board. Districts should immediately fax a copy of the resolution to the School Finance Branch.

2. Between this deadline and the date of the referendum, the referendum particulars must be published at least once a week in a newspaper (as defined in Section 1 of the *School Act*) of general circulation in the school district.

3. If a board passes a resolution to hold a referendum, the referendum must be held on the third Saturday in April. The ballot must be in the form set out in the schedule to the ***School Act.***

4. Money raised by the referendum may be used by the board to provide new programs, to enhance existing programs, for additional activities for students, and/or for local capital project initiatives in addition to those recognized by the Province. It must not be used to fund previous operating deficits.

5. If a majority of the persons who cast ballots vote in favor of raising the money that is the subject of a question on the referendum, expenditure estimates approved by that question must form part of the board's budget for the school year.

6. The referendum approval is for one year only and the taxes levied to support the referendum must be raised in the immediate tax year.

XIV. NATURE OF PROPERTY TAX ASSESSMENTS

Property assessment is based on the market value of property. This value is updated biannually. Details of the determination of tax rates are included in Section II.

XV. EARMARKED PROVINCIAL REVENUE

Property taxes collected by the province are in part earmarked for education. See Section II.

MANITOBA

Schools' Finance Branch
Manitoba Education and Training

I. GENERAL BACKGROUND

- Total enrollment in elementary and secondary education in the Province of Manitoba (excluding schools operated by Indian Bands and the federal government but including independent (private) and home schooling) was 208,847.
- There are 53 school divisions including 6 remote districts which comprise the public school system. These divisions receive the majority of their funding from the Province.
- 195,225 pupils attended schools in the 53 school divisions and districts. 180,426 are considered "eligible" by the Province and therefore are counted for funding purposes. Non-eligible pupils include nursery, one-half of kindergarten, foreign, and Indian pupils resident on a reserve attending a provincial school.
- There are three special revenue districts with 970 pupils and 93 independent schools with 11,986 pupils. A limited amount of provincial funding is provided to the special revenue districts. Fifty-two of the 93 independent schools received a total of $23.2 million in government funding.
- There are 5 schools operated by the federal government, 45 schools operated by Indian Bands, and 666 home school pupils. There is no provincial funding for schools operated by the federal government or Indian bands. No support is provided for home school pupils.
- Funding for all divisions, districts, and schools is for the school year based on enrollment reported as of September 30, 1993.
- Effective January 1, 1990, the Province moved to a system of current market value assessment. Reassessment takes place every three years.

Provincial Support for the Public Sector

- Overall, school division operating expenditures of approximately $1.1 billion in 1993/94 were funded as follows: 66% provincial funding, 29% school division property taxation, 5% miscellaneous revenues.
- A portion of provincial funding is raised through a tax on property by the Province called the Education Support Levy (ESL). As a result property taxes levied by the Province and the school divisions cover approximately 47% of the cost of elementary and secondary education.
- Operating and capital funding for elementary and secondary education in Manitoba applicable to the 53 divisions and districts comprising the public school system is provided under the Schools Finance Program (SFP) implemented in 1992/93.
- The SFP is established by the Provincial Government in The Public Schools Act and in related regulations, and is administered by the Public Schools Finance Board and the Schools' Finance Branch.

- In 1993/94, total provincial funding in support of the operating and capital expenditures of the 53 school divisions and districts totalled $777.7 million.
- Approximately $706.0 million was provided as direct operating support, $66.8 million as capital and debt servicing support, with $4.9 million allocated to Departmental administration and interest costs.
- Support for capital includes debenture principal and interest, school building support, school buses, vocational equipment replacement and establishment.
- Approximately 75% of provincial funding comes from the Consolidated Revenue Fund (principally income and retail sales tax). The other 25% is raised [through] a provincial levy on residential and commercial property called the Education Support Levy (ESL). The commercial levy rate is approximately twice the rate applied to residential assessment. As of January 1, 1990 the ESL was not applied on farm land and outbuildings.
- The Province provides tax credits for homeowners in respect of property taxes levied for education.

Local Support

- Revenues required to finance expenditures after accounting for total provincial and miscellaneous revenues in each school division are raised through a property tax levied by the school divisions called the Special Levy. Overall school divisions raise approximately 29% of the funding required which in 1994 amounted to about $300.0 million.
- School divisions receive other revenue from a variety of sources including the Government of Canada, Indian Bands and other School Divisions. Other revenue covers about 5% of school division expenditures.
- The powers and responsibilities of the school divisions are conferred by The Public Schools Act.

II. THE BASIC SUPPORT PROGRAM

The SFP formula, outlined in *The Public Schools Act* and related regulations, has four main components: base (block) support, categorical support, supplementary (equalization) support and capital support.

This section is concerned with the first three components as these comprise operating support.

Base Support — Part One

Base funding is provided in two parts. Part One funding is in support of classroom instruction and administration. It is calculated as recognized expenditures less 8.06 mills multiplied by 1993 total school assessment where recognized expenditures are the total of:

(a) the lesser of 1993/94 expenditures for division administration, or $2,640 multiplied by eligible instructional units.

(b) the lesser of 1993/94 expenditures for regular instruction and curriculum development, or the total of:

(1) the excess in (a),
(2) instructional units multiplied by 95% of the average teacher salary,
(3) instructional units multiplied by $4,250 (classroom supplies),
(4) instructional units multiplied by $6,970 (school administration),

where instructional units are calculated by dividing the enrollment in large and rural schools by 20.5 and by a lower divisor for small rural schools.

Provincial Funding: $386.6 million
Divisions Receiving Funding: 53

Base Support — Part Two

The second part provides funding on the basis of a unit or a given number of students for Level I Special Needs (high incidence), counselling and guidance, library services, occupancy costs and professional development. School divisions must spend an amount in each area equal to the grant amount or else funding is reduced to the amount actually spent.

Occupancy Support

This program provides funding in support of school buildings operations and maintenance. Funding is calculated as the lesser of:

(a) 66% of 1992/93 operations and maintenance salaries and benefits, plus 80% of all other 1992/93 operations and maintenance expenditures, or:

(b) $\frac{(A/B + C/D)}{2}$ (school building) x $90,000,000

where:

A = sum of ages of active school buildings in the division as at June 30, 1992.
B = sum of ages of active school buildings in the Province as at June 30, 1992.
C = sum of areas of active school buildings in the division as at June 30, 1992.
D = sum of areas of active school buildings in the Province as at June 30, 1992.

Provincial Funding: $76.0 million
Divisions Receiving Funding: 53

Level I Special Needs

Has been shown as part of Special Needs funding under Categorical Support.

Counselling and Guidance

This program provides funding in support of counselling and guidance services for kindergarten through to grade 12. Funding is calculated as the lesser of:

(a) enrollment in grades 5 to 12 divided by 550, multiplied by $45,000, or
(b) actual expenditures.

Provincial Funding: $9.2 million
Divisions Receiving Funding: 51

Library Services

This program provides funding in support of library services. Funding is calculated as the lesser of:

(a) enrollment divided by 600, multiplied by $45,000, plus $15 per pupil in the eligible enrollment, or
(b) actual expenditures.

Provincial Funding: $16.0 million
Divisions Receiving Funding: 53.

Professional Development

This program provides funding in support of professional development activities for teachers. Funding is calculated as the lesser of:

(a) instructional units multiplied by $450, or

(b) actual expenditures.

Provincial Funding: $3.9 million
Divisions Receiving Funding: 53

Categorical Support

Categorical funding is provided for programs and services designed to address unique pupil and divisional circumstances. Such funding may also reflect provincial schooling and program priorities.

Expenditures in excess of provincial funding is the financial responsibility of the school divisions/districts.

In 1993/94 there were seventeen categorical,grants: Transportation, Board and Room, Special Needs (low incidence), Technology Education, English as a Second Language, English Language Enrichment for Native Pupils, Heritage Language, French Language Programs/Instruction, Small Schools, Curricular Materials, Students At Risk, Early Identification, Decreasing Enrollment, Northern and Remoteness Allowance, New School, Red River Vocational Coordinator, and Distance Education.

Provincial Funding: $111.7 million
Divisions Receiving Funding: 53

Supplementary Support

The intent of supplementary support is to provide additional funding to low assessment per pupil school divisions. Funding is provided in support of 75% of operations and maintenance, special needs, technology education and transportation expenditures not funded through either base or categorical support.

Supplementary support is based on an equalization factor which uses the highest divisional assessment per pupil as its reference point. The equalization factor is determined as follows:

$$1 - \frac{\text{MAPP of the School Division}}{\$148{,}541}$$

where MAPP denotes market value assessment for 1993 divided by eligible enrollment for 1993/94, and where $148,541 is the market value assessment per pupil of the division with the highest MAPP in the Province for 1993/94.

Support is calculated as 75% of supportable expenditures multiplied by the equalization factor.

Provincial Funding: $27.2 million
Divisions Receiving Funding: 52

III. TRANSPORTATION

A transported pupil is defined briefly as a pupil who lives further than 1.6 kilometres from school. Funding is calculated as the lesser of:

(a) the total of:

(1) Urban: $200 per transported pupil enrolled in grades K to 4 who reside in a city, town or village.

(2) Rural: $350 per transported pupil enrolled in grades K to 12 who do not reside in a city, town or village.

(3) Special Class/Physically Handicapped: $350 per transported pupil who is unable to walk safely to school and is a Level II or Level III pupil, has a learning disability, or has a physical handicap.

(4) Special: $2,000 per pupil for pupils requiring a specially equipped vehicle, and $5 per pupil in the eligible enrollment.

(5) Contract Buses: $3,000 per approved contract bus.

(6) Loaded Kilometre Support: for all loaded kilometres for distances per bus route per day for each day the bus route operates where the rate per loaded kilometre is based on the following dispersion factors:

greater than or equal to 1.8	$0.42
less than 1.8 and greater than 0.28	$0.52
less than or equal to 0.28	$0.62

where the dispersion factor is the eligible enrollment at September 30, 1993 divided by the area of the school division (in square kilometres),

or

(b) 85% of actual transportation expenditures.

Board and Room. This program provides funding in support of pupils who live away from home in order to attend a school offering a fundable program not offered in their home school division. Funding is calculated as the lesser of:

(a) $480 per pupil for each month the pupil lives away from his or her residence to take a program not offered in the pupil's home school if the one-way distance from the pupil's residence to the school attended is 80 kilometres or more, or

(b) the actual cost of board and room, transportation and sundry living expenses.

Provincial Funding: $32.7 million
Divisions Receiving Funding: 53

IV. SPECIAL EDUCATION

Provincial support for special needs is provided to support the needs of pupils with either learning difficulties or exceptional abilities. Provincial support is calculated as the total of (1), (2), (3) and (4) but may not exceed school division/district total expenditures for special needs.

1. Coordinator and Clinician support which is $45,000 multiplied by the lesser of: (i) eligible enrollment for 1993/94, divided by 700 and adding one for any remainder, or (ii) the number of qualified personnel employed in 1993/94.

   Provincial Funding: $12.5 million
   Divisions Receiving Funding: 52

2. Level I Special Needs: eligible enrollment divided by 180, multiplied by $45,000.

   Provincial Funding: $44.6 million
   Divisions Receiving Funding: 53

3. Level II support: $8,520 for each pupil who is severely multi-handicapped, psychotic, autistic, deaf/hard of hearing or very severely emotionally/behaviourally disordered.

   Provincial Funding: $16.8 million
   Divisions Receiving Funding: 53

4. Level III support: $18,960 for each pupil who is profoundly multi-handicapped, profoundly deaf or profoundly emotionally/behaviourally disordered.

Provincial Funding: $8.3 million
Divisions Receiving Funding: 44

V. STUDENT-AT-RISK SUPPORT

Student-at-Risk funding was introduced in 1992/93 to provide support for additional program initiatives in support of students at risk of dropping out of the system. The student-at-risk program took the place of inner city and compensatory programs.

Proposals submitted by school divisions are reviewed and funding is allocated based on the proposals. In most cases, school divisions apply for funding on the basis of school level eligibility and programs at a school level.

Provincial Funding: $9.6 million
Divisions Receiving Funding: 52

VI. GIFTED AND TALENTED EDUCATION

Included as part of Level I Special Needs funding.

VII. BILINGUAL EDUCATION

Support is provided for a number of language training and assistance programs. Support for language programs is intended to be used to cover only the additional costs in the delivery of these programs.

French Language Instruction

A federal-provincial agreement on minority-language education enables the Province to recover approximately 50% of the grants for French Language instruction.

Support is provided in the following categories:

Français	FTE pupils	x	$250
Immersion	FTE pupils	x	$250
Basic	FTE pupils	x	$100
Conversational	FTE pupils	x	$ 50

Provincial Funding: $7.1 million
Divisions Receiving Funding: 52

English as a Second Language

English as a Second Language (ESL) support was first introduced in 1981. ESL support is intended to address the needs of students with a limited proficiency in English.

ESL support is designed to enhance the language development programs already in place in schools. The support may be used to hire additional teaching or classroom support staff or purchase additional language support materials and equipment. Funding is calculated as the lesser of:

(a) full-time-equivalent English as a Second Language enrollment on September 30, multiplied by $660, or

(b) actual expenditures.

Provincial Funding: $2.0 million
Divisions Receiving Funding: 34

English Language Enrichment for Native Pupils

The English Language Enrichment Program for Native Pupils was introduced in 1984 to provide financial support for additional program initiatives for Native students who need English language development assistance.

Funding is calculated as the lesser of:

(a) the total of:

  (1) full-time-equivalent enrollment in the English Language Enrichment Program for Native Pupils on September 30 to a maximum of 1.5% of eligible enrollment multiplied by $660, and

  (2) full-time-equivalent enrollment in the English Language Enrichment Program for Native Pupils on September 30 in excess of 1.5% of eligible enrollment multiplied by $390,

or

(b) actual expenditures.

"Native" refers to pupils of native ancestry but for whose education the Government of Canada or an Indian Band is not responsible.

Provincial Funding: $3.5 million
Divisions Receiving Funding: 32

Heritage Language

The teaching of heritage languages as a regular subject during the school day was begun in 1984. Heritage languages are all languages other than English and

French taught in Manitoba either during the school day, as part of the regular program of study or in a supplementary (outside school hours) setting.

Funding is provided in the following categories:

Bilingual	FTE pupils	x	$250
Basic	FTE pupils	x	$100

To receive funding for bilingual heritage language programs, divisions must provide 50% of instruction time in the heritage language. To receive funding for basic heritage programs, divisions must teach the heritage language for at least 30 minutes a day, five days out of six days.

Provincial Funding: $0.3 million
Divisions Receiving Funding: 19

VIII. OTHER CATEGORICAL GRANTS

Technology Education

This program provides support for vocational and technology education. Funding is calculated as the total of:

(a) $150 per pupil per Category I (high-cost) courses,

(b) $50 per pupil per Category II (low-cost) courses, and

(c) $5,000 per approved vocational educational program.

Provincial Funding: $6.3 million
Divisions Receiving Funding: 52

Curricular Materials

The allowance for curricular materials is $40 per eligible pupil, $30 of which must be expended through the Manitoba Textbook Bureau (owned and operated by the provincial Department of Education and Training).

Provincial Funding: $7.2 million
Divisions Receiving Funding: 53

Small Schools

The objective of this program is to provide a compensatory support program for small schools to enhance equal educational opportunities. Provided that the enrollment of those grades that qualify for support is greater than 15% of the school's total enrollment funding is calculated as follows:

1. If pupils per elementary grade on September 30, 1992, are:

less than 15	$20 per elementary pupil
15 or more but less than 18	$10 per elementary pupil
18 or more but less than 21	$ 5 per elementary pupil

2. if pupils per secondary grade on September 30, 1992, are:

less than 50	$70 per secondary pupil
50 or more but less than 53	$35 per secondary pupil
53 or more but less than 56	$17.50 per secondary pupil

3. if the school qualifies for support under (1) or (2) or if the school contains only special education pupils and has an enrollment of less than 100 pupils, an amount of $3,300.

Provincial Funding: $1.8 million
Divisions Receiving Funding: 40

Early Identification

Early Identification support is funding to assist school divisions in providing appropriate educational programming to children with special needs upon their entrance into school. This involves screening, confirmation of the child's special needs through diagnostic assessment, appropriate educational intervention and evaluation of the child's progress. School divisions submit proposals and approvals are made on the basis of the proposals.

Provincial Funding: 0.3 million
Divisions Receiving Funding: 52

Decreasing Enrollment

The objective of this program is to provide transitional funding to school divisions experiencing declining enrollment. Funding is calculated as:

(a) the total of:

  (1) 10% of the change in eligible enrollment from September 30, 1990 to September 30, 1991;
  (2) 20% of the change in eligible enrollment from September 30, 1991 to September 30, 1992;
  (3) 70% of the change in eligible enrollment from September 30, 1992 to September 30, 1993.

(b) if (a) is less than 0, then multiply the absolute of (a) by 40% of 1993/94 base support per pupil.

Provincial Funding: $1.1 million
Divisions Receiving Funding: 29

Northern and Remoteness Allowance

The objective of this program is to provide northern districts and divisions with additional funding in support of the additional costs incurred due to their remoteness. Funding is calculated as follows;

(a) if the division lies north of the 56th parallel multiply divisional enrollment by $450,

(b) in school divisions #2309 and #48 multiply divisional enrollment by 300, and

(c) in school division #2439 or if the division lies between the 53rd and 56th parallels multiply divisional enrollment by $150.

Provincial Funding: $2.3 million
Divisions Receiving Funding: 9

Distance Education

Funding is provided in support of professional development activities related to the provision of courses using distance education technologies. Funding is calculated as the lesser of:

(a) $2,500 per school division, or

(b) approved expenditures.

Provincial Funding: 0.1 million
Divisions Receiving Funding: 46

Red River Vocational Coordinator

Funding of $45,000 is provided for four school divisions in support of the regional coordination of vocational programming.

New School

This program provides additional operating support for new schools. Funding is calculated as $7,500 per classroom in a new school provided that:

(a) the school division has an increase in eligible enrollment from September 1992 to September 1993 in excess of 1%; and

(b) the school division opens a new school during the 1993/94 school year which is not a replacement school.

In 1993/94 no school divisions were eligible.

IX. PRE-KINDERGARTEN EDUCATION

No direct or specific provincial support is provided in support of pre-kindergarten education.

X. OTHER SUPPORT AND OTHER REVENUE FROM THE MANITOBA GOVERNMENT

The Provincial Government also provides other support/revenue towards the operating cost of school divisions. This support/revenue includes grants for Non-Residents, Special Needs (multi-sensory), Institutional Programs, and to offset the provincial payroll tax.

XI. PROVINCIAL AID FOR INDEPENDENT (PRIVATE) SCHOOLS

An independent school is defined in the *Educational Administration Act of Manitoba* as any school, other than a public school, which provides a curriculum and a standard of education equivalent to that provided by public schools.

The Province provides partial funding for independent schools if they meet certain financial reporting and accountability criteria. In 1993/94, the Province contributed a per-pupil operating grant based on 63.5% respectively of that provided to public schools.

In 1993/94, 52 independent schools received pupil support for approximately 10,369 eligible pupils for a total funding of approximately $22.2 million in direct aid and $1.0 million through shared service agreements with public school divisions.

Financial support to independent schools is provided in several ways.

1. Direct Aid

    (a) An amount per-pupil equal to 63.5% of the public school categorical, block, equalization and guaranteed support less special needs and curricular support.

    This support is provided to independent schools that offer an education of a standard equivalent to that in public schools and that is taught by teachers with valid teaching certificates. One-half hour of religious instruction per day is allowed for support in independent schools.

    (b) Support for special needs is provided on the same basis as for schools in the public sector.

    (c) Curricular materials for independent schools are provided at $40 per-pupil through the Manitoba Textbook Bureau.

2. Shared Services

School divisions and independent schools may enter into agreements for the sharing of facilities and resources, clinicians and transportation services.

Since the fall term of 1971, school divisions have entered into agreements that provide for transportation of independent school pupils on division-owned buses. The independent school pupils are transported only on regular division bus routes. Claims by the school division for support for these pupils are subject to the regulations governing transportation support for public school pupils.

No capital support is provided to independent schools.

XII. CAPITAL OUTLAY AND DEBT SERVICE

Capital support provided by the Province consists of the following:

1. support for school construction
2. support for buses used for pupil transportation
3. support for vocational equipment
4. support for major capital projects in the main categories of building programs upgrading programs and renovations
5. support for minor capital items determined by a formula based on the age and square footage of active school buildings in a school division.

The Province also pays the interest costs associated with borrowing for capital purposes.

Debt Servicing Principal: $19.3 million
Debt Servicing Interest: $34.4 million

Buses: $4.6 million

Other Capital: $8.6 million

XIII. TEACHER RETIREMENT

In accordance with the *Teachers' Pensions Act*, the Province pays half the retirement benefits to be paid in the year.

XIV. NATURE OF THE PROPERTY TAX ASSESSMENT SYSTEM

On January 1, 1990, with the passage of the *Municipal Assessment Act*, the Province of Manitoba moved to a system of current market value assessment.

All property assessments were updated to 1985 levels of value. However, because market values over time affected different classes of property in varying degrees, the shift in relationship of property values from class to class was significant. In order to prevent corresponding shifting in taxes between classes, the Province enacted legislation that established nine property classes and required the calculation of taxes on a portion of assessment in each property class (portioned assessment). Portioned assessment, therefore, refers to that percentage of assessment in each property class that would be subject to tax.

Reassessment took place in 1994, at which time property values were assessed at 1991 current market value. Reassessment will take place every three years.

XV. PROVINCIALLY IMPOSED LIMITS ON SPENDING OR TAXES BY SCHOOL DIVISIONS

Legislation introduced in 1993/94 limits property tax increases by school divisions in 1993/94 to no more than 2% over the amount raised in 1992/93.

XVI. EARMARKED PROVINCIAL REVENUE

A uniform provincial levy on residential and commercial property called the Education Support Levy (ESL) is earmarked for education.

NEW BRUNSWICK

Gerald Keilty/Normand Martin
Deputy Ministers of Education
Department of Education, New Brunswick

I. GENERAL BACKGROUND

Province Support

- The province provided virtually 100 percent of all school expenditures for its anglophone and francophone public school boards.
- Education expenditures for public schools for Government fiscal year 1993/94 (preliminary) were $587.0 million, excluding capital account and loans and advances items. Debt changes do not appear as a part of this budget.
- Salaries, wages and benefits were 87 percent of all school board expenditures.
- Federal transfer payment for 1993-94 formed 40.0 percent of provincial revenue. Other major sources of revenue were income taxes 19.4 percent, property taxes 5.8 percent, and sales taxes 17.3 percent.
- Collective bargaining for salaries occurs at the provincial level between the New Brunswick Teachers' Federation and the Provincial Board of Management. The Department of Education and School Boards also participate in these negotiations. Working conditions are included in the agreement.
- Public school system is organized to separately serve the two official language communities. There were 6 Francophone and 12 Anglophone school boards. The Department of Education is also organized with parallel structures for the two linguistic sectors. A recent Commission report recommending consolidation into fewer school boards, retaining the two linguistic sectors, has been implemented.

Local Support

- User fees are charged for driver education, cafeteria services, extra-curricular trips and rental of school facilities. These revenues are also relatively insignificant in the context of the overall public schools budget.

II. THE BASIC SUPPORT PROGRAM

Professional Salaries

School boards receive funding for professional staff based on staffing standards, which in turn are applied to school programs and organization.

For 1993/94 these standards were:

Per Class Allocations:

Grades 1-9	1.1 to 1.2 FTE's per class
Grades 10-12	Based on previous allocation adjusted for enrollment changes.

Other Allocations:

School administration; psychology; psychometry	1:350 Grades 1-12 pupils
Elementary guidance	1:1500 Grades 1-12 pupils
Secondary guidance	1:500 Grades 7-12 pupils
Special education	Based on need, equity of service and available services.
Combined classes	When permitted under teachers' collective agreement.
Libraries	1:2400 Grades 1-12 pupils

Over 80 percent of professional salary funds were distributed by per class allocations. A class planning exercise preceded the application of funding standards. All standards were subject to budget availability.

III. TRANSPORTATION

Physical plants; pupil transportation, physical plant and other items were funded on a basis of historical costs and required service levels.

IV. CAPITAL OUTLAY AND DEBT SERVICE

1. Capital projects (new schools; renovations; additions; major repairs; capital equipment) are funded 100 percent by the Province. The program is managed centrally. In 1993-94, the capital budget for public schools was $56.2 million. A further $5.3 million was budgeted for school bus purchases for 1993-94 through a loans and advances account.

2. Debt: Provincial financial statistics are not directly comparable as debt charges for public school education are not separately identified. Virtually all public school expenditures are made from the Province's Consolidated Revenue Fund.

NEWFOUNDLAND AND LABRADOR

Janice Fleming
Department of Educational and Training

I. GENERAL BACKGROUND

- There are 27 school boards in Newfoundland and Labrador, of which 16 are integrated, 9 are Roman Catholic, 1 Pentecostal and 1 Seventh-day Adventists.
- Total enrolment in elementary and secondary education was 188,273. Full-time equivalent (FTE) pupils was 114,557.5 and Full-time equivalent teachers was 7,7746.49 (excluding superintendents, assistant superintendents, speech pathologists and program coordinators). Full-time equivalent pupils means grade kindergarten at 50 percent and all other grades and programs headcount. Full-time equivalent teachers means headcount of full-time teachers, plus part-time teachers according to the percent of allocated unit.
- The number of public schools reported for 1993-94 is 492. This figure includes a number of joint service schools, i.e. schools operated jointly and by mutual agreement between two or more school boards. There are 25 joint service schools. There are three private schools, one institutional school, one native school and one social services school.
- Three Denominational Education Councils (Integrated, Roman Catholic and Pentecostal) are responsible for the allocation of building grants, the development of religious programs and initial certification of teachers. They also appoint one-third of the members of school boards, the others being elected locally.
- Special Education: Prior to 1989-90, all students receiving special education services were reported under the category "Special Education" and not under their grade levels. Since 1989-90, all students are reported in their home-based classroom even if they are receiving special education services. The category of "Special Education" now refers to students who receive all of their program in a special education environment.
- The school year is September 1-August 31. The fiscal year for the school boards is July 1-June 30, on which funding for school boards is based. Government fiscal year is April 1-March 30.
- Funding for all schools boards is for the school fiscal year based on enrolment reported as of September 30, 1992.
- Teachers' salaries are negotiated on a provincial basis; teachers' salaries are paid directly by the provincial treasurer.
- In 1992/93, a Grant Review Committee developed a new funding model composed of seven major components: instructional, school building operations, janitorial and maintenance, school secretarial, administration, debt service and repair and maintenance. The allocation of funding within each of these components is based on a number of cost factors, including student population, school building size and number of schools.

Provincial Support

- In 1993-94, the provincial government provided approximately 100 percent of the revenue for primary, elementary and secondary education. In 1990-91, the provincial government provided 94 percent of the revenue while the other 6 percent was raised locally through poll and property taxes. In June 1992, the local taxes were abolished.

- Total school board revenue in 1993-94, including teachers' salaries, was $551.3 million; enrolment totalled, for an average of $4,661 per pupil. Revenues included provincial payment of teacher salaries, $416.7 million; grants for transportation, $29.9 million; other grants, $92.5 million; donations, $1.7 million; ancillary services, $1.3 million; miscellaneous, $8.9 million; and transfer from capital, $.3 million.
- Total school board expenditures for 1993-94 were $550.3 million, or $4,653 per pupil. Expenditures included $19.4 million for administration (3.5 percent); $440.5 million for instructional (80.0 percent); $51.2 million for operations and maintenance (9.3 percent); $30.3 million for pupil transportation (5.5 percent); $.6 million for ancillary services (.1 percent); $2.0 million for interest expense (.4 percent); $.6 million for miscellaneous (.1 percent) and $5.7 million for transfer to capital (1.1 percent).
- Total funding for capital purposes through the Denominational Education Councils for 1993-94 was $12 million.
- With full provincial funding for 1994/95, expected expenditures will total $580.9 million, approximately $15.1 million more than the total of provincial and local funding expended in 1991/92.
- A Royal Commission's recommendations to dissolve the Denominational Education Councils and reduce the number of school boards to nine, whose trustees would all be elected, are being considered by the government. The Commission estimated that operation of the current denominational system, rather than a "rational non-denominational" system, costs the province an extra $21 million per year, or 4 percent of overall annual expenditures.

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: $505.3 million (89.7% of all funding & 92.3% of provincial funding).

Nature of Program: Direct payment by the provincial government of teachers and superintendents in the school boards plus grant payments based on a model composed of seven major components, instructional, school building operations, janitorial and maintenance, school secretarial, administration, debt service and repairs and maintenance.

Allocation Units: The allocation of funding within each of the seven components is based on a number of cost factors, including student population, school building size and number of schools. The use of multiple cost factors recognizes that all education costs are not a direct function of student population.

Local Fiscal Capacity: None.

How Formula Operates: Teacher Salary Units are allocated to individual school boards on the basis of need. One teacher is allocated for every 23 pupils, with additional teaching units being allocated for students in small schools, for native and French-language students, and for social services such as guidance, library resources, and special education. Actual salaries, including the cost of fringe benefits, are paid by the provincial treasurer, so differences in salaries due to experience and education do not affect a school district's fiscal position. Note: The collective agreement with the Newfoundland Teachers' Association restricts the number of teachers' layoffs (usually caused by declining enrolment) to two percent per year. In 1994-95, as a result of a teachers' strike, one of the concessions was that this "2% rule" was abolished.

The grant allocations are based on seven components as follows:

1. *Instructional*

The instructional allocation is calculated as a sum of several components, which are:

a. Per pupil grant at $75 per pupil;

b. Block funding for schools of various sizes (in number of students),
$5,000 for each school of less than 200 pupils,
$7,500 for each school of 200 to 400 pupils,
$10,000 for each school of 500 or more pupils;

c. Travel allocation based on the 1991-92 actual cost of teachers' travel;

d. Special allocation to cover programs for severely handicapped children formerly provided through the Department's developmental centre.

In 1994-95, the block funding structure was changed as follows:

$7,000 for each school of less than 100 pupils
$7,500 for each school of 100-199 pupils
$8,000 for each school of 200-299 pupils
$8,500 for each school of 300-399 pupils
$9,000 for each school of 400-499 pupils
$9,500 for each school of 500-599 pupils
$10,000 for each school of 600-699 pupils
$10,500 for each school of 70-799 pupils
$11,000 for each school of 800 or more pupils

2. *School Building Operations*

Funding is provided for the projected actual costs of operating school buildings (electricity, fuel, municipal service fees, telephone, snow clearing and gym rentals) limiting allocations to the lower of a maximum 5 percent increase over 1991-92 actual costs, 1992-93 projected actual costs and 1993-94 projected cost unless otherwise substantiated. An adjustment was made when the actual costs for 1992-93 were known.

3. *Janitorial and Maintenance*

The allocation of this component is based on standard levels of service costed at current local wage rates. The standard levels of service are based on the number and size of schools (in square feet).

The standard service levels for 1993-94 are as follows:

9 hours per week for a school of less than 10,000 square feet,
35 hours per week for a school of 10,000 to 19,999 square feet,
85 hours per week for a school of 20,000 to 29,999 square feet,
100 hours per week for a school of 30,000 to 39,999 square feet,
155 hours per week for a school of 40,000 to 59,999 square feet,
200 hours per week for a school of 60,000 to 79,999 square feet,
260 hours per week for a school of 80,000 or more square feet.

In calculating the total allocation of hours per week to a Board, each standard service level is multiplied by the number of schools which the Board has in the size range and this product is totalled for all size ranges. The allocation of hours per week is multiplied by 52 weeks to give the total allocation of hours for the year. The Board's allocation of hours for the year is multiplied by the current local wage rate for Janitorial and Maintenance staff to calculate the regular funding allocation. The wage rate used for each Board is calculated as the weighted average of current wage rates for the Board's Janitorial and Maintenance staff.

Allocations for employee benefits and northern benefits, where applicable, are added to the regular funding allocation to give the total allocation for Janitorial and Maintenance. Employee benefits are calculated as 15 percent of the regular funding allocation, while northern benefits are based on information submitted by Boards.

In 1994-95, the standard service levels are based on 2.8 hours per 1,000 square feet of the total square footage. All other calculations are the same as 1993-94.

4. *School Secretarial*

The allocation of this component is based on standard levels of service costed at current local wages rates. The standard levels of service are based on the number and size of schools (in number of pupils).

The standard service levels for 1993-94 are as follows:

5 hours per week for a school of less than 100 pupils,
10 hours per week for a school of 100 to 199 pupils,
25 hours per week for a school of 200 to 299 pupils,
35 hours per week for a school of 300 to 399 pupils,
50 hours per week for a school of 400 to 499 pupils,
60 hours per week for a school of 500 to 699 pupils,
70 hours per week for a school of 700 or more pupils.

In calculating the total allocation of hours per week to a Board, each standard service level is multiplied by the number of schools which the Board has in the size range and this product is totalled for all size ranges. The allocation of hours per week is multiplied by 42 weeks to give the total allocation of hours for the year. The Board's allocation of hours for the year is multiplied by the current local wage rate for School Secretarial staff to calculate the regular funding allocation. The wage rate used for each Board is calculated as the weighted average of current wage rates for the Board's School Secretarial staff.

Allocations for employee benefits and northern benefits, where applicable, are added to the regular funding allocation to give the School Secretarial allocation. Employee benefits are calculated as 15 percent of the regular funding allocation, while northern benefits are based on information submitted by Boards.

In 1994-95, the standard service levels are based on one hour per week per 10 pupils. All other calculations are the same as 1993-94.

5. *Administration*

Allocations are based on the lower of the 1992-93 allocation, 1992-93 projected actual and 1993-94 projected costs of administration, excluding repairs and maintenance of the Board office. Also administration salaries and benefits excludes Superintendents' and Assistant Superintendents' salaries and benefits; these are included under teachers' salaries and benefits.

6. *Debt Service*

Allocations are based on actual principal and interest cost to be paid in 1993-94 and adjusted for denominational census. Amount paid out in 1993-94 was $4.0 million.

7. *Repairs and Maintenance*

Allocations are calculated as a fixed rate per square foot of floor area for both school building and the board office. The rate for 1993-94 is $0.65 per square foot. The rate for 1994-95 is $0.75 per square foot.

Provincial Share: Provincial share is 100%

Local Share: None

Weighting Procedures: See "How Formula Operates."

Adjustments for Special Factors: Extra Teacher Salary Units are allocated for small schools, remote locations, for native and French-language students, and for special services.

Aid Distribution Schedule: Grant payments are distributed on a quarterly basis, the first three quarters, July-September, October-December, and January-March taking up 65 percent of the grant payment. The fourth quarter, April-June, is 35 percent of the total grant allocation. In 1994-95, the grant payments are made every month based on the school boards' cash flows, with the restriction July-March still only 65 percent of the total grant allocation.

Districts Off Formula: None

III. TRANSPORTATION

Funding in 1993-94: $29.9 million (5.3% of all funding & 5.5% of provincial funding).

Description: There are two types of services under pupil transportation, board- owned and contracted. Board-owned system funding depends of the size of the fleet. The school board submits a budget to the province, which is analyzed and a reasonable amount is agreed upon. There are limits on expenditures for repairs and maintenance on the fleet and salaries are for the most part negotiated. Contracted system funding is based on the market value of the contracts. An application for each contract is submitted to the province for either a renewal or for a newly tendered contract. These are reviewed and the province approves the contract.

Transportation for special needs students are included in the overall transportation grant, approximately $2.5 million in 1993-94.

Provincial Share: The province pays 100 percent of the cost of pupil transportation for both board-owned and contracted systems

Local Share: None

Extent of Participation: All 27 school boards received benefits for the pupil transportation funding. Eleven school boards share eight board-owned systems. Some boards use both systems board-owned and contracted.

IV. CAPITAL OUTLAY AND DEBT SERVICE

Province Aided Programs

Capital Outlay

Funding in 1993-94: $12 million (2.1% of all funding & 2.2% of provincial funding).

Description: All monies voted by legislature for capital purposes are paid to the three Denomination Councils and the Seventh-day Adventist Church authorities. apportionment is in the same ratio that the population of each bears to the total population of the province, using the latest available census figures.

School boards identify school construction needs, develop educational specifications and present proposals to the appropriate Education Council for consideration. Final decisions with respect to project approval are made by the Council, which allocates its funds accordingly.

The province is responsible for the provision of funds to the Councils and the Seventh-day Adventist Church, approval of sites for school construction, and approval of plans for all new buildings and renovations. The latter is necessary to ensure that the plans meet labour and safety standards and that the planned school or extension meets the specifications required to accommodate the program to be offered.

Provincial Share: Provincial share is 100 percent.

Local Share: None

Extent of Participation: The use of these funds was open to all 27 school boards.

Debt Service

This category is listed under the Basic Support Program.

Local Capital Project Financing

None.

V. TEACHER RETIREMENT

Funding in 1993-94: $28.4 million (5.6% of Basic Support Program).

Description: Pensions for teachers are the responsibility of the province.

Provincial Share: 100 percent

Local Share: None

Extent of Participation: All 27 school boards receive the benefit of this funding.

VI. SPECIAL EDUCATION

Funding in 1993-94: Funding included under Basic Support Program.

Description: For staffing purposes, extra Teacher Salary Units are allocated to school boards for special education; for operating, funds are included in the formulas under the Basic Support Program, e.g., a special allocation to cover programs for severely handicapped children formerly provided through the province's developmental centre. There is an additional grant ($4.7 million), [to] the Teacher Assistant Program to further assist with integration of the disabled into the regular school system. Special transportation costs are included in the transportation category.

Provincial Share: 100 percent

Local Share: None

Extent of Participation: Funding available to all 27 school boards.

VII. COMPENSATORY EDUCATION

Newfoundland and Labrador has no provincially funded compensatory education program. It has signed the Federal/Provincial Native Peoples Agreement which provides special funding for communities with large proportions of indigenous peoples.

VIII. GIFTED AND TALENTED EDUCATION

Newfoundland and Labrador has no provincially funded gifted and talented education program.

IX. BILINGUAL EDUCATION

Funding for 1993-94: No distinct provincial funding mechanism.

Description: At present there are about 300 francophone children of school age in the province; they are served by two French-language schools and two schools where anglophone and francophone students share the facility. Funding is provided for several French first-language and French second-language programs through a bi-lateral agreement between the province and the federal government.

The majority of native people in the province reside on the coast of Labrador (Inuit and Innu) or the south coast of Newfoundland (a Micmac community). The latter formed its own school board; the former have not. There are 8 native schools listed under 3 school boards funded by the province, with an enrolment of 1,430 students. The private school has an enrolment of 164 students. Financial assistance is provided under the Federal/Provincial Native Peoples Agreement.

X. OTHER CATEGORICAL PROGRAMS

There are a number of categorical grants funded by the province as follows:

- 100 percent of the cost to a school board of school board elections;
- province-wide application of the Textbook Credit Allocation program;
- 100 percent of the cost of the insurance premium covering schools and other school board property;
- in addition to the payment of the premium above, the province is responsible for the first $1,500,000 of losses under the insurance policy;
- 100 percent of the cost of textbooks prescribed for grades K-8;
- 50 percent of the cost of textbooks prescribed for grades 9-12;
- operating costs of the Denominational Councils;
- bursary program for students required to live away from to attend high school. Eligible students receive a bursary of $2,500 per year.

XI. PROVINCIAL AID FOR PRIVATE K-12 SCHOOLS

No provincial aid is given to private schools, although it is worth noting that the current denominational structure of the education system provides some of the benefits associated with private schools: e.g., a religious education of one's choice.

XII. EARLY CHILDHOOD EDUCATION

No provincial aid is provided for pre-school programs under the mandate of the Department of Education. Head Start, Even Start, Smart Start and subsidized day care operate in province.

XIII. LOCAL SCHOOL TAX REVENUE

The province abolished the local taxation for education in June, 1992.

XIV. TAX AND SPENDING LIMITS

Tax Limits

The province abolished the local taxation for education in June, 1992.

Spending Limits

The province controls the limit of monies that can be borrowed by the school boards, e.g., line of credit with banks. The board can request a line of credit to be approved by the province, but there are restrictions involved, such as the amount and time frame for the line of credit.

XV. EARMARKED PROVINCIAL REVENUE

No provincially raised revenue is specifically earmarked for education.

XVI. SPECIAL TOPICS

None.

NORTHWEST TERRITORIES

Under the Northwest Territories Education Act, the Minister of Education, Culture and Employment is responsible for providing an education system from Kindergarten to Grade 12.

This responsibility is administered through eight divisional boards of education established in each region of the NWT and two school districts in Yellowknife, one of which is public and the other Roman Catholic. Each board is made up of elected representatives who work to ensure that school programs reflect the values and priorities of the communities they serve.

The eight divisional boards of education are essentially 100 per cent funded by the territorial government. The two Yellowknife school districts receive 100 per cent of their funding for high school programs and 75 per cent of their funding for kindergarten to Grade 9 programs from the territorial government. The remaining funds are raised through municipal taxation.

The Education Act is currently undergoing major revision. It is expected to provide a system that increases community control over education.

NOVA SCOTIA

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I. GENERAL BACKGROUND

- In 1993-94, the Province of Nova Scotia was divided into 21 district school boards and one francophone school board. Each district is governed by a board comprised of elected members. The number of members varies and is determined by individual agreements between the board and the province.
- The areas served by district school boards are generally based on municipal boundaries. The formation of the present 21 district school boards took place in 1981 by agreements between the particular municipal units and the provincial government. The Conseil d'cole was formed as a 22nd board in 1991. The Education Act and Regulations govern the provision of public education in the Province.
- District school boards provide public education from grades primary through to 12. Students must be 5 years of age before October 1 and have not reached the age of 21 (unless they are a continuous student) for the district school board to receive financial support from the Province for these students.
- Enrollment in the Province as of September 30, 1993 was 165,900. The district school boards housed these students in 479 schools and employed 10,400 fulltime equivalent teachers and professional educators.
- District school boards are dependent on the provincial and municipal governments for financial support. School boards do not have taxing authority and can only generate revenue through interest income, registration fees, and other fundraising efforts.
- In the 1993-94 fiscal year, the Province contributed $604.7 million or 80% of the total operating and capital revenues of district school boards. Of this amount $548.4 million or 91% are global funds. The district school boards have the authority to allocate these grants according to their own priorities, providing there is compliance with The Education Act and Regulations. The amount of $56.3 million or 9% is specific purpose grants and must be spent for the purpose for which they are granted.
- Municipal units contributed $136.6 million or 18% to the district school boards in 1993-94. Of this amount, $115.7 million or 85% is a mandatory education tax that must be paid by the municipal councils to their district school boards. This amount is determined by a rate set by the provincial government on uniform property assessment throughout the Province. The property assessment function is administered by the provincial government. The remaining amount of $20.9 million or 15% is an optional municipal contribution.
- Many school boards solicit their supporting municipal governments for funding beyond the mandatory education tax; however, there is no obligation to provide additional funding. In addition, legislation enables local school trustees to levy an area rate on a particular block of uniform assessment to raise additional municipal revenues for a specific school; however, this funding source is rarely used.
- School boards generated a final $29.2 million or 2% through interest income, registration fees, federal government program funding and the use of reserves or accumulated surpluses.

- The cost of major school construction/renovation is borne entirely by the Province. The Province maintains complete control over the selection, design and construction of all school buildings in the Province.
- In addition, the Province, through a general fund appropriation, contributes 50% of the premiums for teachers pensions directly to the Teachers' Pension Fund. The teachers contribute the other 50% through payroll deduction by district school boards. In 1993-94 the provincial contribution was $57.7 million. The province also contributes $12 million for the teacher group life/medical/dental insurance program.
- The funding arrangements currently in effect began in 1981. There have been many minor modifications to the formula since that time; however, the basic principles have remained unchanged. In 1993-94, the province established the Education Funding Review Work Group(EFRWG) with increased representation from school boards. The purpose of the work group was to establish funding principles, review all funding formula, establish funding rates and examine funding related program issues. For 1993-94, the EFWRG reviewed all components of the formula and made a number of changes which resulted in reallocation of existing funding to the boards. This reallocation resulted in the need for transitional funding arrangements which were to be phased out over a three to four year period. At the same time any board receiving transitional funding was audited to determine if efficiencies were possible or whether further changes to the formula were required.

Funding Summary, 1993-94

Total Provincial Grants	
Operating	$595.5 million
Capital	9.2 million
Teacher's Retirement Contributions	57.7 million
Teacher's Insurance Contributions	12.0 million
Total Board Revenues	
Municipal Education Tax	$115.7 million
Optional Municipal Contribution	20.9 million
Federal Revenues	11.0 million
Other Board generated revenues	18.2 million

II. THE BASIC SUPPORT PROGRAM

The school year in Nova Scotia is from August 1 to July 31. The fiscal year of the district school boards is the same as the fiscal year of the Province which is from April 1 to March 31.

The following program support descriptions are for the 1993-94 district school board fiscal year.

Provincial Grants

Provincial grants are the sum of the formula amounts described in the following sections less the amount of the municipal Education Tax defined in Grants from Municipalities. The following definitions are used in the provincial funding formulas.

The funding enrollment for a school board in 1993-94 were either the September 30, 1993 enrollment or the average of the enrollments on September 30 in 1991 and 1992, whichever yielded the higher funding count. The average of the enrollments on September 30, 1993 and the projected enrollment on September 30, 1994 was used for growth boards. Boards with four years of increasing enrollments, including the projected year are defined as growth boards. The alternative chosen is the one that gives the school board the greatest funding when the formulas below are applied.

The grant calculations are based on the number of weighted student units, which takes into account both the size of the enrollment and the differences in the costs of various programs. To accomplish this, the count used in the funding enrollment is weighted as follows:

Grades P-6	1.0
Grades 7-12	1.2
Vocational	2.5
One-year business education	2.5
Intermediate Industrial	1.75

As an example, 1,000 grade 712 students counted in the funding enrollment would give the school board 1,000 x 1.2 = 1,200 weightedstudent units.

Global Grants

1. The largest grant is the general formula grant and it is directed towards the cost of administration and student instruction. It is calculated as the sum of the following:
   - **(a)** Basic Grant: The number of weightedstudent units is multiplied by $2551 and by a salary weighting factor to compensate for extra expenses incurred by boards that have relatively higher salary costs. The average salary factor is a board's average educator salary divided by the lowest board's average educator salary. The basic grant is increased by 4% for district school boards with a funding enrolment of less than 3500 students to compensate for the additional difficulties of operating small boards.
   - **(b)** District Board Management: The district school board's funding enrollment multiplied by $150, subject to a minimum of $500,000 for a district school board.
   - **(c)** Acadian Factor: The number of students enrolled in officially designated Acadian schools as of September 30, 1993 multiplied by $335.
2. The property service grant is directed towards the cost of operating and maintaining school facilities and has two components:
   - **(a)** $196 multiplied by the number of student units; plus
   - **(b)** $1.81 multiplied by the number of gross square feet as determined by the Province in approved buildings used by the board to provide school programs.
3. In 1993-94, many fundamental changes were made to the funding formula. Combined with fiscal restraint measures, this meant that many school boards would have had major shifts in their funding and it was decided that a transitional grant be instituted. The transitional funding is the amount that would limit the decrease in provincial and municipal operating funding to 2% compared to the same total operating funds received in 1993-94. Any school board receiving this funding would be subject to a financial review with the intent of eliminating the transitional funds over a four year period or making appropriate adjustments to the funding formula. A total of $5.8 million was required in 1993-94.
4. In addition to formula amounts which were based on 0% increase over 1992-93 funding, the provincial government provided $27.3 million to cover contractual salary increases as well as some cost of inflation increases. These were distributed to boards on a weighted student unit basis.

Specific Purpose Grants

1. The adult education grant provides funding for the cost of approved adult education courses and programs offered by district school boards. It is calculated as the lesser of the actual cost of approved adult education programs or $3.56 multiplied by the number of adults 21 years of age and over living in the areas served by the school board.
2. The driver education grant provides funding for approved driver education programs offered by district school boards. It is calculated as $16.40 multiplied by the grade 1012, intermediate industrial, oneyear business education, and vocational components of the school board's funding enrollment. In 1993-94 this grant became a global grant; i.e. school boards could use these funds for other than driver education purposes.

3. Several other special purpose grants, e.g. Special Education, are described under their respective sections below.

Grants From Municipalities

A school board's grant from the municipalities it serves is determined by the total uniform assessment in those municipalities and an education tax rate established each year by the province. In 1993-94, this rate was 39 cents per $100 of uniform assessment and generated an Education Tax of $115.7 million as the municipal share of the formula funding. The balance of the formula funding amounts described above and in the following sections are paid by the province.

Municipalities can, and several do, contribute amounts in excess of the total raised by the education tax rate. In 1993-94 this additional funding was $20.9 million.

Capital Equipment, Repair and Renovation Grant

A capital equipment, repair and renovation grant provides funding to assist district school boards with the costs of acquiring equipment and normal repairs and maintenance. In 1993-94, it was calculated as $12.87 multiplied by the total number of weighted student units for a total of $3.5 million.

Technology Innovation Grant

$1.5 million was allocated for technology innovation projects on an application basis. $50,000 minimum per board, subject to successful applications, was allowed with the balance of $450,000 allotted on a competitive basis.

Textbook Credit Allocation

A textbook credit allocation of $35.16 per student was provided for the school board to obtain textbooks at the Nova Scotia School Book Bureau. The enrollment used to calculate the total allocation for 1993-94 is initially that of September 30, 1992, but the allocation will be increased to correspond to the September 30, 1993 enrollment if that figure proves to be higher than the 1992 figure. (There is no reduction if the 1993-94 enrollment is lower.) The allocation is used to obtain texts and other learning materials from the Nova Scotia School Book Bureau.

Other Grants

$3.2 million grants for French special projects and minority language funding are provided by the Secretary of State, Canada and the Province, and are administered by the Department of Education.

III. TRANSPORTATION

Formula funding of $38.5 million in operating grants and $4.5 million in capital grants was provided in 1993-94 to district school boards to assist in the costs of providing transportation services to eligible school pupils. Minimum eligibility guidelines are established by the Province but school districts may, and many have, expanded these minimum guidelines to provide service to additional students.

The student transportation grant is directed towards the cost of operating and maintaining student conveyance systems and has two components:

- **(a)** The weighted funding enrollment count multiplied by the school drawing area factor multiplied by $322. The weighted funding enrollment count is the student enrollment count weighted at .667 for elementary students. The school drawing area factor is the square root of the relative average number of square miles covered by each school campus compared to the provincial average coverage.
- **(b)** $4320 for each approved school bus operated by the school board. This is intended as a capital bus replacement grant.

Local Share: The transportation grant is a global grant and, as a result, any transportation costs not covered by formula funding come from other grants, additional municipal contributions or other revenues generated by the district school boards.

IV. CAPITAL OUTLAY AND DEBT SERVICE

In accordance with The Education Act, the Province is responsible for constructing and financing all major school construction; however, district school boards participate in the process and eventually receive title to the land and buildings.

Starting in 1993-94, the Province committed $30.0 million annually for three years for approved, major capital construction projects. In addition, the Province also paid $54.6 million grants to cover the approved debt service costs on school buildings. In addition, $2.1 million capital grants were provided by the Province for emergency purposes approved by the Minister, and additional amounts were provided to assist school boards in their asbestos removal programs.

V. TEACHER RETIREMENT

The Province made $57.7 million in contributions as the employer, to the Teachers' Pension Fund, through a general budgetary appropriation. The Teachers' Pension Plan is a defined benefit pension plan (2% for each year of service). Teachers contribute 8.3% of earnings up to the years maximum pensionable earnings (YMPE) and 9.9% of any earnings over the YMPE. YMPE is defined each year for Canada Pension Plan (CPP) purposes. The Province makes matching contributions. There is no local contribution to the Teachers' Pension Fund. Starting in 1993-94, the Province is contributing $300 million amortized over 30 years as part of a negotiated agreement to cover some of the unfunded liability of the Teachers' Pension Fund. Teachers are contributing at a higher rate than previously and have agreed to a 1% reduction in the cost of living escalation clause for pension benefits. These adjustments are included in the previously stated figures.

The Fund is administered by the Teachers' Pension Commission whose members represent the government and the Nova Scotia Teachers Union. The Teachers' Pension Plan and fund investments are managed by the provincial Department of Finance.

VI. SPECIAL EDUCATION

The special education grant is provided to assist in the costs of providing programs and services to learning disabled students. It is calculated as the lesser of the actual cost of approved special education programs or $222 multiplied by the total funding enrollment (not just the special education enrollment) and by the salaryweighting factor for the school board.

VII. COMPENSATORY EDUCATION

None.

VIII. GIFTED AND TALENTED EDUCATION

None, however some expenses are allowed under Special education.

XI. PROVINCIAL AID FOR PRIVATE SCHOOLS

There are no provincial aid programs for private schools in Nova Scotia except for the textbook credit allocation described in section 2. This credit allocation is available if the private school is using provinciallyapproved textbooks in its curriculum.

XII. EARLY CHILDHOOD EDUCATION

Children under the age of five years as at October 31 are not eligible for provincial funding for the following fiscal year. Some district school boards have introduced programs for preschool age children (i.e., Head Start) which are financed from local or boardgenerated revenues.

Subsidized day care is provided through the Department of Community Services. In 1993/94, there were 2,150 subsidized spaces out of a total of 10,694 licenced spaces. The provincial contribution to these spaces was $12.5 million.

XIII. PROVINCIALLY IMPOSED LIMITS

School boards are dependent upon the local municipality for funds raised beyond the mandatory education tax. They do not have taxing authority. They are not permitted, by legislation, to budget for a deficit. An operating deficit in one year becomes the first charge against the budget in the following year.

XIV. NATURE OF THE PROPERTY TAX ASSESSMENT SYSTEM

The property tax assessment system is administered by the Province. Uniform criteria is applied throughout the Province on property assessments which are performed every three years. Both commercial and residential assessments are taxable at the same mandatory rate for education purposes. The Education Tax is based on the "Uniform Assesment" of the municiplaities served by the School Board. The Uniform Assessment is the sum of the assessments described above plus any grants in lieu taxes received by the municipality converted to an assessment equivalent.

XV. EARMARKED PROVINCIAL REVENUE

No provincial revenue is earmarked for education.

ONTARIO

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Ministry of Education and Training

I. GENERAL BACKGROUND

- In 1993-94, there were 171 school boards operating elementary and/or secondary schools in Ontario. Roman Catholics in Ontario have constitutionally protected rights to a publicly funded system of elementary and secondary education. Of the 168 boards, 58 were Roman Catholic separate boards, 1 was a Protestant separate board, and 112 were public boards.

- Ontario has a large francophone population, and persons defined as "French-speaking" under Section 23 of the Canadian Charter of Rights and Freedoms are entitled to have their children receive elementary and secondary education in the French language. School boards in Ontario, therefore, are required to have minority-language sections where numbers warrant. Minority-language sections are usually French, but in some cases, where the population is predominately French, the minority-language section is English.

- Special legislation has also established the Conseil scolaire de langue francaise d'Ottawa-Carleton (the Ottawa-Carleton French-language School Board), which has a public sector and a Catholic sector (counted separately in the 168 "boards" noted above), and the Conseil des ecoles francaises de la communaute urbaine de Toronto (the Metropolitan Toronto French-language School Council).

- In 1993-94, there were 1,426,567 students enrolled in 3,558 public schools, with 85,782 teachers; and 616,143 students enrolled in 1,621 Roman Catholic separate schools, with 34,016 teachers; for a *total* of 2,042,710 students enrolled in 5,179 schools, with 119,798 teachers. Approximately five percent of all students in Ontario receive their education in the French language.

- Local revenue comes from the local property tax base, which is shared with municipalities. Municipalities collect education taxes on behalf of school boards. Provincial revenue comes from the Consolidated Revenue Fund (CRF), which includes personal and corporate income taxes, retail sales tax, gasoline and liquor taxes, etc.

- In February 1991, the Ontario Government established a Fair Tax Commission to study all areas of taxation and to make recommendations for fairer taxation. The Commission submitted a comprehensive report to the Minister of Finance in December, 1993 in which it made wide-ranging recommendations in respect of the financing of education. It recommended that the Province replace the residential property tax for education purposes with income-based provincial revenue sources and implement a province-wide tax rate on commercial/industrial properties. It also recommended a higher, more realistic level of recognized expenditure funded fully by the Province and a 10 per cent limit on discretionary expenditure of local school boards. It suggested that any local discretionary spending be funded by residential property taxes.

- Ministry of Education and Training has been reviewing the education finance system since 1991 from the point of view of identifying the needs of the learner, the cost of the programs and services that are required to meet those needs, and the best way to distribute funds to meet those needs.

Province

- Total school board expenditures (including employers' contributions to the Teacher Pension Fund) for 1993 were $14.1 billion. The province contributed $6.0 billion towards these costs.

- In 1993, provincial financial support amounted to 38.2 percent of total school board operating expenditure. This percentage compares with 42.1 percent in 1990 and 46.6 percent in 1985.
- The present funding model came into effect in 1968, and is based on two principles: equality of educational opportunity for all pupils in Ontario and equality of tax burden on local ratepayers. The effective rate of grant is determined by a board's assessment wealth, and so varies from board to board.
- Although incremental changes have been made to the funding model since 1968, it is now under severe pressure because of the wide variation in property assessment wealth across Ontario. Also, litigation is pending over the "equivalency" of French-language education to English-language education, and over the lack of provincial funds for religious schools other than those operated by Roman Catholic school boards.
- Publicly funded elementary and secondary education includes Junior Kindergarten through Grade 12 and/or the Ontario Academic Courses (OAC). Private schools in Ontario do not receive public funds.
- With the exception of a small number of boards (those operating schools on armed forces bases, in hospitals and treatment centres, and in very remote areas of the province), all school boards receive provincial funding according to the same basic grant formula.
- Local property taxes are partly or wholly offset for senior citizens and persons with low incomes through property tax credits which are administered through the personal income tax system. For the purposes of this paper, however, these tax credits have *not* been included as part of Provincial Support.

Local

- Of the $14.1 billion in education expenditure, local property taxes contributed $8.0 billion.
- School boards are independent local bodies and determine their own budgets and requisition property tax revenues from the local municipalities in their jurisdiction. In southern Ontario school boards were consolidated into enlarged county-wide boards in 1969. In Metropolitan Toronto, an upper-tier board, the Metropolitan Toronto School Board allocates funding to the six area boards.
- Education taxes currently constitute, on average, about 52 percent of the local property tax bill.

Funding Summary, 1993-94

In Ontario, the fiscal year for the provincial government is from April 1 to March 31 and for school boards is the calendar year from January 1 to December 31. All amounts shown in this paper are for the 1993 calendar year.

Total Provincial Support		$ 6,027.5 million
Grants: Operating	4,895.2 million	
Capital	115.3 million	
Teacher pension contributions*	1,017.0 million	
FICA	0	
Total Local School Revenue		$ 8,023.5 million
Property Tax Revenue	8,017.3 million	
Other Local Source Tax Revenue	6.2 million	
Total Provincial & Local School Board Revenue		$14,051.0 million
Provincially-financed property tax credits and rebates attributable to school taxes**	$425.0 million	
Property Tax Credits	325.0 million	
Farm Tax Rebate	100.0 million	

* The province pays the employer's share of teachers' pension contributions on behalf of school boards ($674.6 million). In addition, the provincial government makes annual payments on the unfunded liability in the teachers' pension fund ($342.4 million).

** Provincial property tax credits are part of the Ontario Tax Credit program which is delivered through the personal income tax system and the Farm Tax Rebate program. The integrated tax credit program is income based and includes a property tax credit, a property tax credit for seniors, and an Ontario sales tax credit. The farm tax rebate covers the farmer's property taxes on farmland. The property tax credits and rebates are for both municipal and school components of the local property tax bill. Since gross tax credits are offset by a percentage of income, it is difficult to allocate tax credits between the property tax and sales tax portions. The above amounts attributed to school taxes are estimates based on relative shares of gross tax credits before income offsets.

II. THE BASIC SUPPORT PROGRAM

Basic Per Pupil Grant

Funding in 1993: $3,260.6 million

Note:The phrase "Funding in 1993" indicates the actual amount of grant paid to school boards in their fiscal year (January 1 to December 31).

Nature of Program: The Basic Per Pupil Grant is an equalization payment. It is the difference between a school board's Recognized Ordinary Expenditure (the amount the Province deems necessary to provide a base level of education) and the amount the board is able to raise from its "equalized" assessment base.

Basic Per Pupil Amount: For 1993, the Basic Per Pupil amounts were $4,034 per elementary pupil and $4,966 per secondary pupil.

Allocation Units: Based on day school pupils (i.e., Average Daily Enrollment (ADE)). Average daily enrollment is calculated on the current year's weighted enrollment counts on the last school days of January, April and September (i.e., January count @ 0.3 + April count @ 0.3 + September count @ 0.4) Half-time pupils in junior kindergarten and kindergarten are weighted at 0.5 in the ADE calculation. In 1993, the definition of a full-time pupil was changed from one enrolled for 151 minutes per school day to 210 minutes per school day.

(Starting in 1994, the number of count dates has been reduced from three to two counts - on the last school days in February and September. The weighting of enrolment counts has been changed to previous September count @ 0.1 + January count @ 0.5 + September count @ 0.4.)

Local Fiscal Capacity: Local wealth is measured by the value of the equalized assessment (i.e., estimate of market value) of all taxable property in the board's jurisdiction. Each year the province establishes a standard mill rate that each board applies to its equalized assessment to determine the local contribution to Recognized Ordinary Expenditure.

How Formula Operates: The province pays an equalization grant equal to the difference between the recognized ordinary expenditure and the school board's property tax revenue yield from the standard provincial mill rate. For 1993, the recognized ordinary expenditure was based on a basic per pupil amount of $4,034 per elementary pupil and $4,966 per secondary pupil that is recognized by the province for grant purposes. The standard provincial mill rate for recognized ordinary expenditure was 0.006295 (or 6.295 mills) for elementary school purposes and 0.005186 (or 5.186 mills) for secondary school purposes. One mill raises $1.00 of revenues for every $1,000 of equalized assessment. The grant formula was as follows:

Basic Per Pupil Grant = Recognized Ordinary Expenditure - Local Revenue Yield From Standard Mill Rate

where:

Recognized Ordinary Expenditure = School Board's Average x Basic Per Pupil Amount Daily Enrolment
($4,034 elementary pupil, $4,966 secondary pupil)

Local Revenue Yield From Standard Mill Rate = School Board's x Standard Equalized Assessment Mill Rate
(0.006295 elementary purpose, 0.005186 secondary purpose)

Provincial Share: The basic per pupil grant is equal to the difference between the recognized ordinary expenditure and the local revenue yield from the standard mill rate.

Local Share: The local revenue yield is determined by the application of the standard mill rate to the school board's equalized property assessment base.

School Boards Off Formula - Negative Grant: Two large urban school boards with very high equalized assessment per pupil calculate negative grant entitlements for the Basic Per Pupil Grant. When these boards apply the provincial standard mill rate to their equalized assessment bases, their property tax revenue yield exceeds the level of their recognized ordinary expenditures. At present, however, other grant entitlements offset this negativity. In 1993, there were no school boards in Ontario in an overall negative grant situation.

Support Included in the Basic Per Pupil Grant

1. *Special Education and Trainable Retarded Pupils:* In 1989, the Special Education Grant and the Grant for Programs for Trainable Retarded Pupils were incorporated into the Basic Per Pupil Grant, reflecting the Province's view that the provision of education for "exceptional" pupils is part of the basic responsibility of school boards under the *Education Act.*

   Exceptional pupils are defined as those having behavioural, communicational, intellectual, physical or multiple exceptionalities.

   In 1993, the Special Education portion of the Basic Per Pupil Grant was $285 per elementary pupil and $211 per secondary pupil. The portion for Trainable Retarded Pupils was $24 per elementary and secondary pupil.

   See also Grant for Programs in lieu of Provincial Services for Blind/Deaf Pupils.

2. *Grant for Teachers' Qualifications and Experience:* All boards that spend above the provincial average with respect to a combination of teacher experience and teacher qualifications receive a grant to assist them with the expenditure over the average. The grant is calculated using an instructional salary matrix, and is paid at the board's rate of grant on Recognized Ordinary Expenditure. A local share is required. In 1993, 72 school boards received a total of $28.8 million under this provision in the Basic Per Pupil Grant.

3. *Compensation for Pooling of Commercial/Industrial Property Tax Revenues:* To ease the implementation of the local "pooling" initiative, the government committed $180 million in grants over the six-year period of the phase-in. While these funds were committed to address losses in public school board revenues due to pooling, they are distributed to all boards.

   For 1993, $64 per pupil was incorporated into the Basic Per Pupil Grant as compensation for pooling.

Weighting Procedures and Adjustments to the Basic Per Pupil Grant for Special Factors:

Board-Specific Grants

Funding in 1993: $231.4 million

Description: Board-Specific Grants address the fact that the cost of providing the base level of education programs and services varies with geographic, demographic and socio-economic conditions across Ontario. They replace weighting factors formerly in the funding model, and are provided at 100 percent of recognized costs.

1. French-as-a-First-Language Grant

Funding in 1993: $31.8 million

Description: Under the *Education Act*, a school board must provide instruction in the French language to any pupil who meets the definition of a "French-speaking person" as defined in Section 23 of the Canadian Charter of Rights and Freedoms. The grant recognizes the higher instructional, material and administrative costs school boards incur in providing this program.

Calculation: For elementary levels, $278 per pupil enrolled. For secondary levels, $85 per pupil enrolled in Grades 9 and 10, and $91 per pupil enrolled in Grades 11 and 12/OAC.

Extent of Participation: 62 boards

2. Small Schools Grant

Funding in 1993: $26.7 million

Description: This grant offsets the higher per pupil cost of programs in small schools, which generally exist in sparsely populated areas. Small elementary schools are defined as having less than an average of 20 pupils per grade (200 pupils for a JK-8 school), and are eight or more kilometres from another school of the same language of instruction. Small secondary schools are defined as having less than an average of 120 pupils per grade (600 pupils for a Grades 9-12/OAC school) and are located 32 or more kilometres from another school of the same language of instruction.

Calculation: The grant is based on a sliding scale of the number of pupils per grade. For elementary levels, the maximum is 100 percent of the Basic Per Pupil amount ($4,034) in additional grant. For secondary levels, the maximum is 90 percent of the Basic Per Pupil amount ($4,966) in additional grant.

Extent of Participation: 94 boards

3. Small Boards Grant

Funding in 1993: $20.8 million

Description: The grant provides financial assistance to offset the additional administrative costs experienced in the operation of small boards and as an incentive to offer some community-oriented programs through the school system. Small school boards are defined as boards with an elementary or secondary enrollment of 5,000 or fewer pupils. The grant provides financial support to offset per pupil costs for administration and educational services that are higher than those of larger boards. The grant was increased in 1989 to further offset costs for supervisory services that were formerly provided directly by the Province.

Calculation: A base amount of $67,730 per board, plus an amount per pupil ($139 elementary, $190 secondary) based on a sliding scale of the number of pupils enrolled in the board. Maximum eligible enrollment, 5,000. The smaller the enrollment, the larger the grant.

Extent of Participation: 84 boards

4. Small Sections Grant

Funding in 1993: $2.8 million

Description: All school boards with an English-language section and a French-language section, where one or both of the sections have fewer than 500 pupils, receive this grant. It assists boards with the costs of providing administrative, consultative and supervisory services where pupil enrollment is low.

Calculation: The grant is based on a sliding scale of the number of pupils enrolled in the section. Maximum eligible enrollment is 500. The smaller the enrollment, the larger the grant.

Extent of Participation: 48 boards

5. Goods and Services Grant

Funding in 1993: $44.8 million

Description: This grant acknowledges the higher cost of purchasing goods and obtaining services incurred by school boards throughout Ontario that are distant from major urban centres and/or whose schools are distant from each other.

Calculation: The following three factors are considered in determining the grant:

1. Distance — The first factor is distance of the board office location to the nearest major urban centre. A per pupil grant ranges from $0 to $412 per elementary student and $515 per secondary student depending on distance. This takes into account the additional costs of goods and services relating to remoteness.

2. Student Sparsity — The second factor is sparsity of the student population in the board's jurisdiction. This covers the cost of moving goods and services within a board. Boards with low student density receive a grant of $31 per elementary student and $38.75 per secondary student.

3. Urban Factor — The third factor is the existence or absence of an urban centre with a population greater than 25,000 within the board's jurisdiction. A varying percentage factor depending on the size of the urban centre is applied to the sum of the per pupil grants calculated for the first two factors.

Extent of Participation: 70 boards

6. Compensatory Education Grant

Funding in 1993: $89.5 million

Description: Compensatory education grants assist boards in addressing the needs of students who are economically or socially disadvantaged and, therefore, at risk for academic failure and dropout.

Calculation: All boards above a median on a scale designed to measure need for compensatory services receive this grant. The variables considered are income, a mother tongue that is neither English nor French, percentage of the local population in receipt of welfare, and percentage of the local population in public housing. The grant varies from $71 to $180 per elementary pupil and from $45 to $115 per secondary pupil.

Extent of Participation: 76 boards

7. Declining Enrolment Grant

Funding in 1993: $15.0 million

Description: The province recognizes that a school board may not be able to reduce its operating costs in direct proportion to a reduction in its enrolment. A grant is provided for a period of two years to assist the board in phasing down its operating expenses.

Calculation: The grant is based on the recognized operating costs related to the enrolment reduction in proportion to enrolment size.

Extent of Participation: 66 boards

III. TRANSPORTATION

Funding in 1993: $402.3 million

Description: The transportation grant is paid to assist school boards with the costs of transporting pupils from home to school or from school to school. Transportation policy and routes are established by the boards. A board's grant for transportation is based on:

1. The need for transportation within a board as determined by the density of its pupil population: the less densely populated an area, the greater the need for transportation and the greater the grant. The grant is 100 per cent of the amount based on pupil density.

2. The funding of additional approved transportation expenditure incurred by the board in excess of the "need" portion determined above is shared between the province and the school board. The grant is the difference between this additional expenditure and the amount raised locally from the standard mill rate (i.e., equal to the one for basic per pupil grant) per $100 of expenditure per student.

A board's approved transportation expenditure is determined through an approval mechanism that takes into account the number and size of bus vehicles used by the board for transporting pupils, the number of kilometres travelled and the occupancy of the vehicles. The specific amount determined in the pupil density portion is designed to offset the variation in the need for transportation services among school boards. The density portion of the grant ranges from a maximum of $515 per pupil to a minimum of $10 per pupil.

Provincial Share: The province pays 100 per cent of the amount based on pupil density. In 1993, the pupil density portion was $283.0 million or 70 per cent of total transportation grants. The province also pays the difference between the additional recognized transportation expenditure and the local revenue yield from the standard mill rate. This portion was equal to $119.3 million or 30 per cent of total transportation grants in 1993.

Local Share: The local share is equal to the property tax yield from the standard mill rate for the additional approved expenditure and the entire amount of locally determined expenditure for transportation. In 1993, the local share amounted to $220.5 million of the total of $622.8 million spent on transportation.

Extent of Participation: 122 boards

IV. CAPITAL OUTLAY AND DEBT SERVICE

Provincially Aided Programs

Capital Outlay

Funding in 1993-94: $332.0 million (amount allocated by province for approved capital projects in its fiscal year)

Note: The above amount includes funding shown under Special Capital Funding Initiatives.

New Pupil Places and Site Purchases (including child care and Junior Kindergarten spaces):	$265.0 million
Renovation and Replacement:	$ 37.0 million
Program Upgrade (including Technological Education):	$ 30.0 million

Description: The provincial government provides capital grants for major capital projects to assist school boards in meeting their obligations to supply adequate accommodation for their students. School boards are required to submit a Capital Expenditure Forecast which identifies their capital requirements in order of priority. These requirements are evaluated by the Ministry of Education according to need criteria and the fiscal parameters of the capital funding allocation. The need criteria are based on available alternatives to providing new student places (e.g., use of portable classrooms, busing to other schools in the neighbourhood) and the utilized capacity of existing school facilities.

Continued high growth in residential subdivisions surrounding Metropolitan Toronto and the Regional Municipality of Ottawa-Carleton continue to place great accommodation pressure on the school boards in these areas. There are about 12,000 portables in use in Ontario's schools, approximately 45 per cent of which are in the Greater Toronto Area. As a result, a large portion of school capital funding has gone to school boards in this region.

Provincial Share: Under the capital funding program, the province funds two types of school capital projects — "growth" projects which provide new schools or new student places to meet the student accommodation needs arising from increasing enrolment and "non-growth" projects which replace or renovate existing accommodation or provide program upgrades. The province recognizes 90 per cent of the cost of an approved project for grant funding purposes. The average provincial share of this recognized cost is 60 per cent for "growth" projects and 75 per cent for "non-growth" projects. The actual grant is equalized by application of a standard mill rate to the school board's equalized property assessment base.

In 1993, the province replaced its direct capital grants program with a debenture or loan-based financing system. Under this loan-based system, the province continues to approve capital projects for funding purposes. However, instead of receiving a grant, school boards borrow their capital grant requirements from the Ontario Financing Authority through the issue of debenture. The province then pays school boards the amount of principal and interest payments as they become due. School boards repay the debentures over a twenty year period.

All new and replacement schools offering a primary and junior division are required to have a child care centre incorporated into the building. The province funds 100 per cent of the recognized cost of the child care centre.

Local Share: The average local shares of the recognized cost of approved capital projects are 40 per cent for "growth" projects and 25 per cent for "non-growth" projects. In addition, the school board is also responsible for raising the 10 per cent share of the project cost which is not recognized for grant purposes.

Extent of Participation: In 1993-94, 187 "growth" projects in 45 school boards and 400 "non-growth" projects in 85 school boards were funded by the province.

Special Capital Funding Initiatives

1. Child Care Spaces in New Schools

Funding in 1993-94: $12.0 million

Description: The grant was designed to ensure that child care spaces were provided for school-aged children in all new and replacement schools.

Calculation: Covers 100 percent of recognized costs, up to the maximum of the allocation.

In 1991, the guidelines for capital grants for child care spaces were changed to permit more discretion on the part of a school board as to the appropriate location of such spaces. Requests can now be made to transfer funds that were allocated to a centre in a new or replacement school towards the creation of centres at existing schools.

2. Junior Kindergarten Spaces

Funding in 1993-94: $20.0 million

Description: The Province requires all school boards to offer Junior Kindergarten by 1994. (Attendance is voluntary.) Most boards already offer JK, but the grant assists those boards who do not provide it to add pupil places.

Calculation: Grants are provided according to the normal capital grant procedures (see **Capital Outlay** above).

3. Renewal Fund for Technological Education

Funding in 1993-94: $12.0 million

Description: School boards that wish to renew technological education programs in communications, construction, manufacturing, services and transportation are eligible. The boards must consult with key community and business partners and draft a three-year plan explaining how the program will be implemented. See also the Technological Education Grant.

Calculation: Each school delivering Grades 10, 11 and 12 technological studies is eligible for up to $200,000 per technological program.

Local Capital Project Financing

Boards may finance capital expenditures through the use of current funds, either raised in-year or from reserves, debentures, and/or Education Development Charges.

Current Funds: The maximum amount of revenue that a school board may spend on permanent improvements in any one year is limited to two mills on equalized assessment, or any amount in a board reserve fund established for this purpose.

Debentures: Up until 1993, boards that issued debentures for permanent improvements had to obtain from the Ontario Municipal Board (OMB) a Quota Approval at the planning stage and a Final Approval immediately prior to the letting of a construction contract.

The Ministry of Education and Training informed the OMB of its annual capital allocations. If a board wished to issue a debenture, the OMB examined the allocation in relation to other capital projects in the municipality's jurisdiction, established and advised the board of a quota.

As of 1994, the Ministry regulates the capital works and borrowing powers of public school boards. Roman Catholic separate school boards are not covered by the regulation, however, they are encouraged to follow it. The Ministry sets debt and financial obligation limits on school boards of 10 per cent of their total revenue fund expenditures.

Education Development Charges (EDCs): The area surrounding Metropolitan Toronto experienced a very high rate of growth in the 1980s. As a result, local school boards faced a tremendous need for new schools. While provincial capital funding increased significantly, it could not keep up with the demand. Education development charges, through legislation that came into effect in November 1989, are intended to assist boards in addressing the need for new pupil places in areas of high growth.

The *Development Charges Act, 1989*, enables school boards to finance up to 100 percent of the local share of capital projects by charging developers a levy on new residential and commercial development. If a school board expects that new residential development will increase its student enrollment to the extent that new schools will be required, it can pass a bylaw to levy an EDC related to these capital costs. Eligible capital costs include new schools, school site purchases and furniture and equipment. Coterminous boards must work co-operatively in the establishment of charges and the spending of revenue. Charges are collected by the local municipality from the developer at the building-permit approval stage.

V. TEACHER RETIREMENT

Teacher Retirement

Funding in 1993: $1,017.0 million

Description: The province pays the entire employers' share of teachers' pension contributions on behalf of school boards directly to the Teachers' Pension Fund (TPF). The employers' contributions are equal to the 8.9 per cent of salary paid by teachers. In 1993, the government continued to pay down the $4 billion unfunded liability in the Teachers' Pension Fund.

The 1993 payment of the employers' contributions to the TPF was $674.6 million and the payment towards the unfunded liability was $342.4 million.

Social Security

Description: As employers, school boards contribute to the Canada Pension Plan and the Unemployment Insurance. These social security plans are administered by the federal government and are funded by employer and employee premium contributions through payroll deductions. The Canada Pension Plan has matching contributions from both employers and employees and for unemployment insurance the employer's share is 1.4 times the employee's share.

In addition, the province administers the Employer Health Tax which contributes to the funding of medicare costs. School boards pay the employer health tax premiums as a percentage of their payroll.

The province does not directly pay the employer's share of social security costs on behalf of school boards. These costs, however, are included in the recognized ordinary expenditures for grant purposes which are used to calculate the basic per pupil grants.

VI. SPECIAL EDUCATION

Since 1989, the Special Education Grant has been part of the Basic Per Pupil Grant.

VII. COMPENSATORY EDUCATION

The Compensatory Education Grant is a Board-Specific Grant applied as an adjustment to the Basic Per Pupil Grant.

VIII. GIFTED AND TALENTED EDUCATION

Gifted and talented pupils are considered "exceptional pupils" as defined by the *Education Act*, and the Special Education Grant recognizes the costs of educating all exceptional pupils.

IX. BILINGUAL AND HERITAGE LANGUAGES EDUCATION

Funding in 1993: $259.5 million

Provincial support is provided for a number of language training programs, as follows:

1. French-as-a-First-Language Grant

This is a Board-Specific Grant applied as an adjustment to the Basic Per Pupil Grant.

2. French-as-a-Second-Language Grant

Funding in 1993: $146.3 million

Description: This grant provides for the additional costs of offering core, extended and immersion programs in French.

Calculation: Based on the number of pupils enrolled in the program. At the elementary level, it ranges from $119 to $291 per pupil, depending on the length of the program (from 20 minutes per day to full immersion). At the secondary level, it ranges from $57 to $145, depending on the number of credits.

There is an additional grant of $3,374 per course, to a maximum of four courses, for boards that, for the first time, offer a French-language course in a subject other than French.

Extent of Participation: 118 boards

3. Native-as-a-Second-Language Grant:

Funding in 1993: $0.7 million

Description: This grant assists school boards that provide Native language courses in addition to, or as a substitute for, French as a Second Language. Languages offered are Ojibwe, Cree, Delaware, Mohawk, Oneida and Cayuga.

Calculation: Based on the number of pupils enrolled in the program. At the elementary level, it is $219 per pupil for a 20-to-40 minute per day program and $389 per pupil for a program of more than 40 minutes per day. At the secondary level, it is $57 per pupil for a credit in Grades 9 and 10, and $75 per pupil for a credit in Grades 11 and 12/OAC.

To help boards initiate this program, the Ministry also provides a start-up grant for the first five years of the program of $200 per pupil enrolled. While the amount of funding, the number of boards and the number of pupils involved is relatively small, the grant is an important part of the Ontario Government's commitment to improving the quality of education for Natives.

Extent of Participation: 30 boards

4. Additional Language Instruction Grant:

Funding in 1993: $94.7 million

Description: This grant is offered to school boards that provide, as part of the regular day-school program, language instruction for pupils whose first language is neither English nor French. These English/French-as-a-Second-Language (ESL/FSL) programs enable pupils to participate in regular classes as soon as possible.

Calculation: Based on the number of ESL/FSL teachers employed by a board that are in excess of four teachers per 10,000 pupils at the elementary level and two teachers per 10,000 pupils at the secondary level. The level of salary recognized is $44,350 per elementary level teacher and $52,000 per secondary level teacher. Additional grants are available for boards offering ESL/FSL programs for adults in evening classes, as part of the Grant for Continuing Education.

Extent of Participation: 39 boards

5. Mixed-Language Secondary Schools Grant:

Funding in 1993: $1.4 million

Description: This grant encourages boards to provide a wide range of courses and services in the minority language (either English or French) of a mixed-language secondary school.

Calculation: Based on a sliding scale of the number of pupils per grade. There is a maximum of $5,000 per credit offered in the minority language, with the grant being reduced as the population of minority-language pupils approaches 120 per grade.

Extent of Participation: 15 boards

6. Heritage Language Grant:

Funding in 1993: $16.4 million

Description: The grant is for approved classes for Heritage Language instruction in a language other than English or French. Such classes must be offered (outside of regular classroom hours) if a specified number of parents request the instruction.

Calculation: $41 per hour of classroom instruction, with a reduction for small classes.

Extent of Participation: 62 boards

X. OTHER CATEGORICAL PROGRAMS

Funding in 1993: $691.7 million

Provincial support is provided for a number of other categorical programs, as follows:

Grant for Full-Day Kindergarten

Funding in 1993: $11.4 million

Description: Effective September 1990, the Province provides funding to encourage boards to offer full-day kindergarten programs.

Calculation: Based on the number of pupils enrolled in the additional half-day of a full-day program. The grant is provided at the board's usual rate of grant for Recognized Ordinary Expenditure. The board must make up the balance of the costs as its local share.

Extent of Participation: 49 boards

Grant for Reduction of Class Size in Grades 1 and 2

Funding in 1993: $167.6 million

Description: The grant assists school boards with the costs of reducing class sizes in Grades 1 and 2 to an average pupil-teacher ratio of 20:1.

Calculation: 100 percent of the average teacher salary/benefits cost, multiplied by the number of additional teachers hired to achieve the reduction.

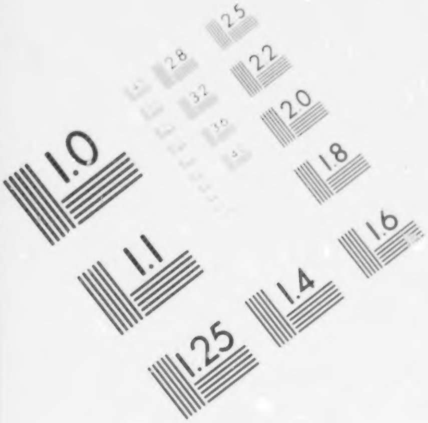
Extent of Participation: 122 boards

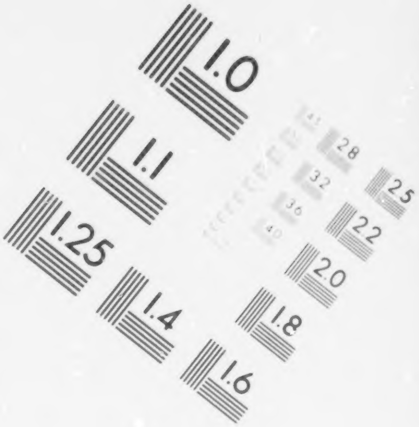
Recognized Extraordinary Expenditure Grant

Funding in 1993: $51.8 million

Description: This grant assists school boards with the costs of purchase of computer hardware for classroom use, debt charges, and capital expenditure exclusive of expenditure on direct capital projects. The portion for the purchase of computer hardware is $20.4 million and supports a government initiative to promote technology upgrading and computer literacy in schools.

Calculation: The Ministry of Education determines the amount of each school board's expenditures on the above-noted items that it will recognize. The rate of grant on recognized expenditure is based on the board's assessment wealth. The board must make up the balance of the costs as its local share.





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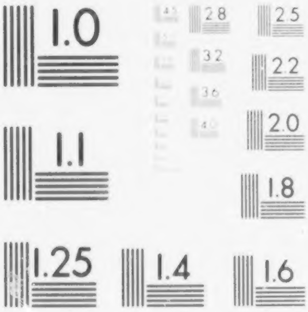

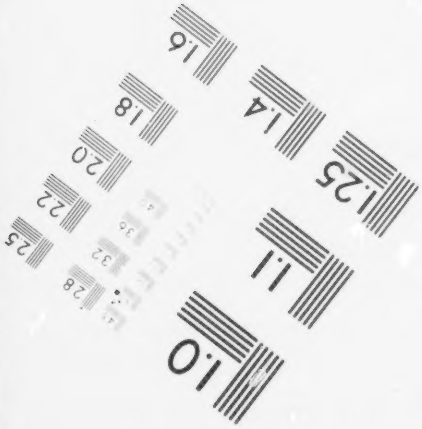

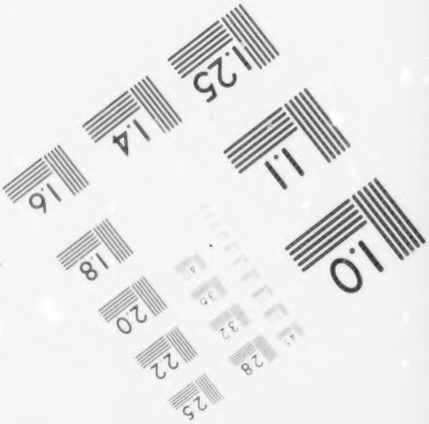

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Extent of Participation: 122 boards

Technological Education Grant

Funding in 1993: $2.1 million

Description: This grant recognizes the higher per pupil cost involved in providing technological and vocational programs because of the smaller class sizes and individualized pupil requirements involved, and is allocated to boards that provide a large number of these courses. See also the Renewal Fund for Technological Education.

Calculation: Based on the number of technological education teachers employed by a board that are in excess of five teachers per 1,000 pupils. The level of salary recognized is $49,600 per teacher.

Extent of Participation: 41 boards

Grant for Programs in Lieu of Provincial Services for Blind/Deaf Pupils

Funding in 1993: $17.0 million

Description: Grants are provided for salaries and benefits for specialist teachers and teacher aides, where a school board offers an approved Special Education program for blind/deaf pupils who might otherwise attend a provincial school for the blind/deaf.

Calculation: The number of teachers and half the number of teacher-aides employed by the board for the purposes of the program, multiplied by a salary of $46,000 for an elementary program and $52,900 for a secondary program.

Extent of Participation: 84 boards

Grant for Education Programs in Care, Treatment and Correctional Facilities

Funding in 1993: $69.2 million

Description: The grant assists school boards that provide educational programs for school-age pupils who cannot attend their local school because they have been placed in a care, treatment or correctional facility.

Calculation: 100 percent of the actual cost of salaries and benefits for the teachers and teacher aides involved in such programs.

Extent of Participation: 82 boards

Grant for Continuing Education, Secondary Summer School and Driver Education

Funding in 1993: $129.0 million

Description: This grant supports the government's commitment to continuing education, adult literacy and numeracy, English/French-as-a-second-language programs for adults and citizenship programs. It also provides support for secondary summer school programs and the "in-class"portion of driver education programs.

Calculation: $2,150 per "full-time equivalent" pupil, where full-time equivalent equals 975 hours of classroom instruction

Extent of Participation: 113 boards

Grant for the Cost of Education for Non-Resident Pupils

Funding in 1993: $68.2 million

Description: This grant reimburses school boards for the cost of educating pupils who are enrolled in their schools but who reside in areas outside the jurisdiction of any board. It also reimburses boards for the cost of educating pupils who reside in institutions or group homes, or who are wards of a children's aid society.

Calculation: The board's average operating expenditure per pupil, plus an amount for accommodation charges.

Extent of Participation: 113 boards

Grant for Open-Access Tuition Fees

Funding in 1993: $53.6 million

Description: Since 1985, when public funding for secondary education was extended to the Roman Catholic separate school system, secondary school students have had the right of "open-access"; that is, the students can choose to attend either the public or separate system, even though their parents' taxes support the other system. In those situations, the board supplying the service charges a tuition fee to recover costs from the board that receives the taxes.

Calculation: The grant makes up the difference where the costs for the educating board are higher than the costs in the tax-recipient board, thereby ensuring that the costs of these students to the tax-recipient board are no greater than if the board had educated them in its own schools.

Extent of Participation: 50 boards

Assistance for En Bloc Transfers

Funding in 1993: $0.8 million

Description: Since the extension of public funding for secondary education to separate school boards in 1985, a number of French-language secondary schools have been transferred from public to separate school boards. This grant offsets overhead costs which remain with the public board.

Calculation: The grant covers the board's nontransferable costs, as approved by the Ministry of Education.

Extent of Participation: 10 boards

Change in Tax Revenue

Funding in 1993: $14.7 million

Description: Where a community has lost assessment during a year because of the closure or removal of industry (resulting in a tax writeoff), extra grant is paid to the school board in the following year to partially offset the reduction in tax revenue.

Where new development results in an increase in the assessment base during a year and, therefore, greater revenue to the board (through supplementary taxes), the increased revenue is partially offset by a reduction in the grant payable to the board in the following year.

Calculation: The increase or reduction is calculated according to the equalization formula and principles of the grant plan.

Extent of Participation: 122 boards

Isolate Boards Grant

Funding in 1993: $24.1 million

Description: "Isolate" boards, which are very small school boards located in remote areas, have high per pupil costs and low tax bases. Isolate boards are funded on a program-approval basis, rather than according to the grant formula.

Calculation: The grant is the difference between the board's program costs, as approved by the Ministry of Education, and local tax revenues.

Extent of Participation: 34 boards

Grant for Boards on Tax-Exempt Land

Funding in 1993: $3.9 million

Description: This grant provides for part of the costs of operating schools on tax-exempt land, including schools on armed forces bases and in sanatoriums, hospitals, crippled children's treatment centres and centres for the treatment of cerebral palsy. Eligible costs include teachers' salaries, transportation, and the board and lodging of students.

Calculation: For schools on armed forces bases, the grant covers 50 percent of all costs, excluding capital costs. For schools in hospitals and treatment centres, the grant covers 80 percent of teachers' salaries and approved transportation costs and 50 percent of the remaining costs, excluding capital costs.

Extent of Participation: 10 boards

Special Support for Pooling

Funding in 1993: $13.0 million

Description: Additional funds are incorporated in the Basic Per Pupil Grant to address possible losses in assessment as a result of pooling of commercial/industrial assessment between coterminous public and separate school boards. It was anticipated that, even with this additional support, a small number of public boards would experience a loss of revenue. The Special Support for Pooling Grant provides additional funds to ensure that no public school board experiences a net loss of revenue because of pooling.

Calculation: The grant covers the difference between the amount of a board's loss of assessment due to pooling and the amount of compensation for pooling paid to the board under the Basic Per Pupil Grant. Each board's situation is considered individually.

Extent of Participation: 13 boards

Pay Equity Grant

Funding in 1993: $38.5 million

Description: This grant is provided to assist school boards with costs related to the implementation of pay equity plans in accordance with the provincial *Pay Equity Act*.

Calculation: The grant is equal to the rate of grant under the Basic Per Pupil Grant applied to the per pupil amount recognized for pay equity costs.

Education Programs Other

Funding in 1993: $26.8 million

Description: These funds support a wide range of programs, including: drug-awareness programs; the hiring of consultants to help with professional development and the implementation of new educational initiatives; the purchase of educational software; the development of computer networks for sharing of administrative procedures and information among school boards; and the purchase of large-scale learning equipment for Junior Kindergarten classrooms.

Calculation: Funding is not based on a formula. The Ministry assesses each application for funds individually.

Extent of Participation: While all of the funding supports education, it does not all go to school boards. Other recipients include individuals, teachers' groups and other associations.

XI. PROVINCIAL AID FOR PRIVATE JK/12/OAC SCHOOLS

Roman Catholic separate schools and French-language schools in Ontario have constitutional rights to public funding. Aside from these schools, Ontario provides no funding for private education.

XII. EARLY CHILDHOOD EDUCATION

Child care operating expenses are not funded by the Ministry of Education. The Ministry does provide a capital grant for Child Care Spaces in schools.

There is also a capital grant to assist school boards in providing spaces for Junior Kindergarten programs, which all boards must offer by 1994. Operating funds for JK are provided as part of the Basic Per Pupil Grant.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

In 1993, municipalities raised $8.0 billion from property taxation for school purposes.

Tax rates are levied on the valuation of property, including residential, farm, cottage, commercial and industrial property. Residential mill rates are set by legislation at 85 per cent of the commercial mill rates. Because properties were assessed at different times, valuation varies from municipality to municipality. Reassessment to market value or updating of the assessment base is available to municipalities on a voluntary basis.

Designation of school support: Residential and farm assessment is automatically directed to the public school system unless the taxpayer is a Roman Catholic and specifically indicates on the assessment form that he/she wishes to support the separate school system. Ratepayers defined as "French-speaking"under Section 23 of the Canadian Charter of Rights and Freedoms may also designate their support to a French-language public or French-language Catholic school board or sector, where one exists. Similar rules exist for sole-proprietorship businesses and partnerships, and for non-publicly traded corporations (i.e., private corporations where shareholders can be identified).

The assessment from publicly traded corporations is shared within a school jurisdiction by the coterminous public and Roman Catholic boards (and by the French-language boards or sectors, where they exist). This commercial-industrial assessment is shared or "pooled"between boards in the same proportion as the division of residential and farm assessment that exists in the municipalities within the jurisdiction. Pooling was instituted in 1990 and is being phased in over six year period until 1995.

In 1994, legislation was passed to change the basis on which the property assessment of publicly traded corporations will be shared among school boards within the same jurisdiction. Starting in 1996, this sharing will be done on the basis of the proportion of enrolment rather than the share of residential and farm property assessment. This new basis of corporate assessment pooling will be fully phased in by 1998.

Nature of the Property Assessment System

Property valuation in Ontario varies from municipality to municipality. Since 1970, property assessment has been carried out by the province under the authority of the *Assessment Act*, but reassessment to market value is a voluntary decision made at the municipal level.

The province "equalizes" all property assessment by converting local assessed values to current market value. This equalized assessment is used for determining local fiscal capacities for provincial education grant purposes and the allocation of school tax requisitions among constituent municipalities in school board jurisdictions. Equalized assessments are updated every four years with the next revision due in 1994 using 1992 market values. The annual impacts of new equalized assessment bases are phased-in at a rate no greater more than 3 per cent for grant purposes and no greater than 5 per cent for municipal apportionment of school requisitions.

Three different reassessment programs are available. Under each option, the residential mill rate for municipal and school purposes is 15 percent lower than the commercial mill rate. The most common classes of property are: residential, one to six units; residential, seven or more units; commercial; industrial; and farm. In the options below, "Section 70" and "Section 63" refer to sections of the *Assessment Act*.

Local government in Ontario involves two tiers: local municipalities form the lower tier; they are grouped under an upper-tier structure that can be a "county"or a "regional municipality."

1. The "Section 70" reassessment program is available to local municipalities. It involves reassessment of all properties to full market value. This option allows taxes to shift among classes of property as market values change.

2. The "Section 63" reassessment program is also available to local municipalities. It involves equalization within classes of property by factoring assessments in each class so that taxes do not shift between classes. The total assessed value of the property in the municipality is maintained at the pre-reassessed level.

3. The County/Region Reassessment Program is available on a county-wide or region-wide basis. It can be carried out as either a Section 70 or a Section 63 reassessment. Unlike the municipal reassessment programs, however, updates to the base are automatic every four years once the program has been implemented.

XIV. TAX AND SPENDING LIMITS

Under the *Education Act*, school boards are required to balance their budgets; i.e., to raise through property taxes enough funds to cover their estimated expenditures, less the anticipated revenue from provincial grants and other sources. Aside from this requirement, there is no provincially-imposed limit on board spending or on the amount of a board's levy on its tax base.

XV. EARMARKED PROVINCIAL REVENUE

There are no provincial funds earmarked for education.

PRINCE EDWARD ISLAND

Gar Andrew
P.E.I. Department of Education

Describes the finance program in effect for 1990-91.

I. GENERAL BACKGROUND

Provincial Support

- On Prince Edward Island there are five school boards. In 4 of the 5 school boards (Regional Administrative Units) the first language is English while in the fifth school board the first language is French. The boundaries of the English school boards divide the province into four different regions while the French school board encompasses the entire province. The French school board reflects the concentration of French speaking inhabitants in several areas of the province.

- Grades 1-12 are financed as part of elementary/secondary education in all 5 school boards. There is no system of publicly funded kindergarten in the province.

- The total enrollment in the province for the school year 1990-91 was 24,504. This includes elementary and secondary public and private schools.

- The total costs of elementary and secondary education are drawn from the general revenues of the Province.

- Between 1969 and 1972 changes were made to the *Real Property Tax Act* (R.S.P.E.I., 1990) and the *School Act* (R.S.P.E.I., 1988) Numerous small school boards were consolidated and grouped into five regional administrative units, and the "School Tax" became part of the property tax. Responsibility for assessing, levying and collecting property taxes became a provincial responsibility and continues to be.

- The provincial share of the revenue of the school boards is 100%.

- For the school year 1972-73, a foundation program was established as the general grant mechanism. It was developed to set out the overall goals of education and establish a funding mechanism to achieve an equitable distribution of available funding among the five regional administrative units. With some modifications to the foundation program, this system remains in place.

- There are no pending court challenges to the existing funding arrangement.

Local Support

- The *School Act* allows the regional administrative units, with the authorization of the Minister of Education and majority plebiscite of the constituents, to levy and collect a "local tax" in accordance with the *Real Property Tax Act* to be used to support "Supplementary Programs." To date this power has not been used.

II. THE BASIC SUPPORT PROGRAM

The 1990-91 General School Aid Formula

The Foundation Program is the mechanism for providing financial grants to Regional Administrative Unit School Boards to fund the elementary and secondary education system of Prince Edward Island. The foundation program provides 100% of the school boards budget. *The School Act* (R.S.P.E.I., 1988) section 5 (a) empowers the Minister of Education to establish a foundation or other program for all regional administrative units.

The Foundation Program grants funding to the regional administrative units in a number of different areas. For the year 1990-91 it totaled $106.9 million. The size of the grant is determined, for the most part, on historical spending patterns and on the number of pupils or full -time equivalents (FTEs) determined by enrollment in each school board as well as a number of other criteria.

Provincial Share: The provincial government provides 100% of the school boards budget. It funds all types of programs.

Local Share: The school board does not raise any of its revenue from local taxation. It does generate some revenue from rentals, interest income, sale of assets and other miscellaneous revenue. School boards are authorized to spend only those amounts approved by the Minister per the *School Act*. Should boards overspend their budgets in any year, the amount of the over expenditure is deducted from the grants of the second year after the year of the deficit.

Extent of Participation: All students of school age within the province, with the exception of those who attend the two small private schools, are part of the ratio (99.7%). No funding is provided for private schools, although free textbooks for the authorized provincial curriculum are supplied.

Grants are provided to the Regional Administrative Units in the following categories as part of the Foundation Program.

A.	PERSONNEL			$85.7 million
	1.	Instructional-Supervisory	$ 0.7 million	
	2.	Instructional Non-Supervisory	$60.5 million	
	3.	Non-Instructional Supervisory	$ 0.6 million	
	4.	Non-Instructional Non-Supervisory	$13.5 million	
	5.	Substitutes, Casual Employees and Overtime Provisions for Instructional Non-Supervisory and Non-Instructional Non-Supervisory Personnel	$ 1.4 million	
	6.	Funding—Personnel Costs	$ 9.0 million	
B.	ADMINISTRATION			$1.2 million
C.	MAINTENANCE - PHYSICAL PLANT			$5.6 million
D.	PROGRAM			$1.4 million
E.	TRANSPORTATION			$2.2 million
F.	PROFESSIONAL DEVELOPMENT			$0.1 million
G.	CAPITAL (Non-amortized)			$0.8 million
H.	BUS PURCHASES			$1.6 million
I.	DEBT RETIREMENT			$8.4 million
H.	SUPPLEMENTARY FUNDING — MINORITY AND SECOND LANGUAGE PROGRAMS			$0.1 million

Personnel. The responsibility for employing and supervising instructional and non-instructional personnel is vested in each Regional Administrative Unit (Section 24 and 25 of the *School Act*). The Department of Education gives enabling grants to the school boards to pay personnel in the Instructional-Supervisory Category, Special Needs instructors in the Instructional Non-Supervisory Category, personnel in the Non-Instructional Supervisory Category and personnel in the Non-Instructional Non-Supervisory Category as well as to pay for substitutes, casual employees and overtime.

The number of positions which are funded are determined as outlined in the Foundation Program.

Instructional Non-Supervisory. The number of Instructional Non-Supervisory personnel is determined by the number of full-time equivalent students with the enrollment count for each Regional Administrative Unit being verified by the Minister.

(a) One position for every 19.3 full-time equivalent pupils, excluding vocational, enrolled in programs in schools under the jurisdiction of a Regional School Board as of October 31 of the previous year. Part-time students, including students enrolled in project integration, will be converted to full-time equivalents by using the following formula:

$$\frac{\text{total number of credits taken by all part-time students}}{5} = N$$

where N equals the number of full-time equivalent students.

(b) One position for every 14 full-time equivalent pupils enrolled in Department of Education approved vocational programs under the jurisdiction of a Regional School Board as of October 31 of the previous year.

Administrative Positions. Within the ratios of 19.3:1 and 14:1 a Regional School Board

(a) may establish the position of a Principal for each school.

(b) may establish the position of Vice-Principal for each 400 full-time equivalent pupils or greater fraction thereof officially enrolled in that Regional Administrative Unit.

(c) may establish one Department Head position for each three hundred full-time equivalent pupils or greater fraction thereof officially enrolled in that Regional Administrative Unit.

(d) may establish one Program Coordinator position in lieu of two Department Head positions.

Notwithstanding the formulae to be used in determining the number of Principal, Vice-Principal, Coordinator and Department Head positions that a Regional School Board may establish under the following section, where a Regional School Board does not utilize all of the positions available in any one category the Board may utilize the equivalent responsibility allowance available for such positions of responsibility as determined by the Board.

Teachers appointed as Principals, Vice-Principals, Coordinators and Department Heads shall be paid a basic teacher's salary plus a responsibility allowance as set forth in the Memorandum of Agreement between the Province of Prince Edward Island and the Prince Edward Island Teachers' Federation.

III. TRANSPORTATION

According to Section 44 (1) of the *School Act*, the Minister of Education must provide necessary transportation for pupils of school age. Transportation, excluding bus purchases, accounts for 8.1% of the Department of Education's budget. Transportation for all Island students in 1990-91 cost $8.6 million. By board policy all pupils living one mile or more from their school may receive transportation. Transportation costs are determined by the provisions in the Foundation Program which is described below:

The Department of Education will provide each Regional School Board with funding for transportation of pupils who require transportation to and from school. The transportation of pupils shall be, in so far as is practicable, provided on a board-owned and board-operated transportation system. It is recognized that in certain instances it will be necessary for a Regional School Board to employ contracted transportation services. In such cases the Board shall submit the details of the contracted services to the Minister of Education for approval.

All school boards in the province participate in the program and it is entirely funded by the Department of Education.

IV. CAPITAL OUTLAY AND DEBT SERVICE

In accordance with Section 23 (5) of the *School Act* and following the requirement in Section 23 (1) the Department of Education will provide funding for capital expenditures to school boards. According to the Foundation Program the school boards receive funding for capital expenditures in the following categories:

(a) Renovations, Repairs and Equipment

The level of funding for 1990-91 was $35.00 per pupil for each pupil enrolled in schools that have been in operation for at least four years, (i.e. schools that are in their fifth year of operation during the 1990-91 school year) and $10.45 per pupil for each pupil enrolled in schools that are in the first, second, third or fourth year of operation.

The total cost to the Department of Education for renovations repairs and equipment in 1990-91 was $0.8 million which is 0.8% of its total budget.

(b) Bus Purchases

The Department of Education will provide each Regional School Board with funds to acquire additional and/or replacement buses. The Department of Education spent a total of $1.6 million on school bus purchases which is 1.5% of its total budget.

School Construction

The Minister of Education is responsible for school construction. School boards are authorized to borrow funds from the Province for capital expenditures for school construction by the Lieutenant Governor in Council and assume liability to repay it. For example if a new school is to be constructed within a given school board, The Department of Education will provide each Regional School Board with funds to cover principal and interest payments in accordance with repayment schedules.

Total expenditures in 1990-91 for school construction was $18.1 million.

Provincial Share: 100%

Local Share: None

Extent of Participation: All school boards receive funding for capital expenditure.

V. TEACHER RETIREMENT

Teachers' Superannuation Fund

PEI Teachers Superannuation Act (R.S. P.E.I., 1988)

Amount contributed to the Teachers Superannuation Fund in 1990-91 by teachers and employers was $8.0 million.

The Teachers' Superannuation Act states that teachers must contribute the agreed upon amount and the employer must match that amount. The employers' contribution to the Teachers' Superannuation Fund is part of the budget of each regional administrative unit provided by the Department of Education. A matching amount comes from the teachers' salary allotment which is also part of the budget of each regional administrative unit provided by the Department of Education. Employers' contributions to the Teachers' Superannuation fund is $4.0 million which is 3.7% of the total funds for education. The Teachers' Superannuation Fund is a completely separate entity and is distinguished from the General Revenue and Expenditures of the Province or the Department. The fund is administered by the Teachers' Superannuation Commission

Contributions to the Fund are matched with the Teachers and provincial government contributing equal amounts. Every teacher shall contribute to the Fund an amount which is:

(a) 7.5% of that part of the teacher's salary which is exempt from Canada Pension Plan,

(b) plus 5.7% of the teachers salary that exceeds the basic exemption up to the amount of the Yearly Maximum Pensionable Earnings

(c) plus 7.5% of that part of the teachers salary in excess of the Yearly Maximum Pensionable Earnings.

(d) plus 7.5% of the salary of a teacher whose employment is excluded from the Canada Pension Plan.

Extent of Participation: All Island teachers employed by the five Regional Administrative Units contribute to the Teachers' Superannuation Fund.

VI. SPECIAL EDUCATION

In accordance with the *School Act* Section 44 (1), (free school privileges for all school age children) and Section 44 (2), (the Minister of Education may provide free school privileges for a child with special needs or in special circumstances at a location other than a school in the Regional Administrative Unit in which the child is resident), the Department of Education provides an educational program which in some cases may or may not be distinct from the regular school program.

The Department of Education spent an estimated $7.3 million on special education staffing in 1990-91. It is an estimated 6.9% of the budget for education in the province.

Funding for some programs are provided by regional agencies which the Department of Education contributes to. In another case an educational program is provided in cooperation with another provincial government department.

Programs for special needs students include educational services for the hearing and visually impaired, students with learning disabilities, the mentally retarded, students with behavior disorders, students who are home-bound or hospital-bound and immigrant students who require English language training.

The system of special education on PEI is essentially a non-categorical system.

Provincial Share: The Department of Education provides all monies for this program.

Local Share: None

Extent of Participation: All Regional Administrative Units participate in programs for special needs students.

VII. COMPENSATORY EDUCATION

No special provisions.

VIII. GIFTED AND TALENTED EDUCATION

The costs for programs for gifted and talented are included the total education budget are not identifiable.

There are few programs which involve special funding for gifted and talented students. One program, which is part of the regular offerings, involves providing exceptional students enriched courses in senior high schools (Grades 10-12). A second program is an early admission option to P.E.I.'s only university, the University of Prince Edward Island. Exceptional students can enter into a university program without having completed the normal high school requirements. There is no cost to the Department of Education to have these students enter University through the early admissions program.

Provincial Share: 100 %

Local Share: None

Extent of Participation: All Regional Administrative Units offer enriched courses in senior high school as well as participate in the early admissions program.

IX. BILINGUAL EDUCATION

Core French, French Immersion and French-First-Language Education.

There is no legal requirement that the P.E.I. public school system provide French education for school age children of non-French speaking parents. Nonetheless, the P.E.I. public education system provides funding for Core French and French Immersion as part of the regular funding to the regional administrative units.

Regional Administrative Unit 5 has been delivering French-First-Language education since 1972. Since the institution of the *Charter of Rights and Freedoms* the province has had a constitutional responsibility to provide French-First-Language education to children of citizens of Canada whose first language is French, to children of citizens of Canada who have had their education in the minority language whether it is French or English and to children of citizens of Canada whose sibling(s) are receiving or have received their education in French, according to Section 23 of the *Canadian Charter of Rights and Freedoms.* The principles of Section 23 were made part of the *School Act* (section 50 and 51) in 1988. As a result of the institution of the *Charter of Rights and Freedoms* and the growth of the French speaking population on P.E.I., the boundaries of Unit 5 were expanded to include the entire province.

Core French is one of the subjects in the regular curriculum. French Immersion is a second language program which sees students receiving the majority of their education in French. In recognition of the fact that there is a significant need and desire to acquire French language skills, not to mention that the French community is an integral part of the fabric of P.E.I. and Canadian society, the Department of Education provides Core French instruction (one period per school day) and a French Immersion program. Second Language Education funding is included in regular formula for both staffing and program.

Regional Administrative Unit 5 has also been given the responsibility to administer the entire French-First-Language education system. Additional staffing and funding is provided over and above provincial formulae to Unit 5. Between 1972 and 1990 Regional Administrative Unit 5 was responsible for administering the French-First-Language education system in the segment of the province where a large number of the Acadian population resides. In 1990 they were given an expanded mandate which included administering the French-First-Language education system which is expanding to other areas of Prince Edward Island, i.e., a provincial mandate.

Provincial Share: The federal government contributes to French education at varying levels. The province benefits from the financial support provided by the federal government for additional costs associated with the delivery of French First- and Second-Language programs. For example, the federal government provided 75% of the costs of a new French school-community centre while the province paid the remainder.

Local Share: None

Extent of Participation: Schools in Units 1-4 participate in French Immersion and Core French programs. Schools in Unit 5 are the only participants in French-as-a-first language program.

X. OTHER CATEGORICAL PROGRAMS

Vocational Education

The Holland College Act (R.S.P.E.I. 1988, Cap. H-8)

The Department of Education spent $4.2 million on vocational education for senior high school students.

There are two types of vocational education in the province. Students in grades 11 and 12 have the option of taking credit courses in a particular vocational area and explore a possible future interest. These courses are part of the regular secondary school program. Formal vocational training is available through a community college after graduation.

The post-secondary vocational program and the secondary vocational program are difficult to distinguish in terms of finance as some Regional Administrative Units rely on the community college as a delivery site. Funding for post-secondary and secondary programs are not necessarily distinct and are part of the larger operating budget of the community college. In other Regional Administrative Units secondary vocational programs are delivered within the school.

Provincial Share: 100%

Local Share: None

Extent of Participation: All Regional Administrative Units provide vocational courses.

Professional Development

Professional Leave. Memorandum of Agreement Between the Province of P.E.I. and the P.E.I. Teachers' Federation, Section 21.

Department of Education spends $0.1 million on professional development. It is 0.1 % of the total budget.

Each teacher is granted up to five days to attend workshops or conventions. In addition Regional Administrative Units may grant professional leave to attend meetings or participate in activities of the Board and Department of Education or other meetings or activities furthering the cause of education.

Provincial Share: 100%, directly for actual costs or indirectly as part of the budget of the Regional Administrative Units.

Local Share: None

Extent of Participation: Teachers from all Regional Administrative Units attend professional development sessions. Each teacher attends an average of two professional development sessions during the school year.

XI. PROVINCIAL AID FOR PRIVATE SCHOOLS

Of the total students of school age, 0.3% attend the two small private schools and are therefore extra-ratio (99.7%). No funding is provided for private schools, although free textbooks for the authorized provincial curriculum are supplied by the Department of Education

XII. PROVINCIAL PROGRAMS FOR PREKINDERGARTEN EDUCATION

The province provides no support for Kindergarten or pre-Kindergarten education.

XIII. LOCAL SCHOOL REVENUE

There is no local revenue for education, except for miscellaneous revenue from rentals, etc.

XIV. PROVINCIALLY IMPOSED LIMITS ON SPENDING

School boards are authorized to spend only those amounts approved by the Minister per the *School Act*. Should boards overspend their budgets in any year, the amount of the over expenditure is deducted from the grants of the second year after the year of the deficit.

The Province sets property tax rates, assesses all property and collects taxes levied. All property is assessed by the Assessment Branch of the Revenue Division of the Department of Finance. P.E.I. residents receive a 50% reduction on property taxes while non-residents must pay 100%.

Property tax is unrelated to education expenditure.

XV. EARMARKED PROVINCIAL REVENUE

No provincial revenue is earmarked for education.

QUÉBEC

LE FINANCEMENT DES COMMISSIONS SCOLAIRES AU QUÉBEC 1993-1994

FAITS SAILLANTS RELATIVEMENT AU FINANCEMENT DES COMMISSIONS SCOLAIRES

- Les commissions scolaires sont constituées en vertu de la Loi sur l'instruction publique du Québec. Elles sont administrées par un Conseil des commissaires. Ces derniers sont élus par les votes des citoyens.

- Les commissions scolaires fournissent les services d'éducation préscolaire et d'enseignement primaire et secondaire.

  Préscolaire: Généralement, l'éducation préscolaire dure une année scolaire (maternelle 5 ans). Dans certains cas, elle débute plus tôt (maternelle 4 ans).

  Primaire: L'enseignement primaire s'étend sur 6 années scolaires.

  Secondaire: L'enseignement secondaire concerne la formation générale des jeunes, la formation générale des adultes et la formation professionnelle des jeunes et des adultes. L'enseignement secondaire général comprend 5 années scolaires.

  La loi prévoit qu'un enfant doit fréquenter l'école jusqu'à l'âge de 16 ans.

- En 1993-1994, le nombre d'élèves des commissions scolaires s'élève à environ 1 136 400.

Maternelle 4 ans	7 600
Maternelle 5 ans	81 500
Primaire	529 400
Secondaire général jeunes	421 100
Secondaire général adultes (en équivalent temps plein)	57 800
Secondaire professionnel jeunes et adultes (en équivalent temps plein)	39 000

  À ce nombre total d'élèves du réseau public des commissions scolaires, s'ajoute le nombre d'élèves du réseau privé qui est d'environ 103 600 élèves.

- En 1993-1994, le réseau public des commissions scolaires compte 158 organismes:

Catholiques	137
Protestantes	18
Multiconfessionnelles	3

- Les rapports financiers 1993-1994 des commissions scolaires, avant analyse par le Ministère, montrent des revenus totaux de 6 843,9 millions $:

1)	Subventions du ministère de l'Éducation	5 129,2 M$
2)	Subventions des autres ministères et organismes paragouvernementaux	481,2 M$
3)	Taxes scolaires et subvention de péréquation	780,1 M$
4)	Autres revenus	453,4 M$

1. SUBVENTIONS DU MINISTÈRE DE L'ÉDUCATION (5 129,2 M$)

Les subventions du ministère de l'Éducation regroupent les subventions suivantes:

1.1	Subventions de fonctionnement pour la formation générale des jeunes, la formation générale des adultes et la formation professionnelle des jeunes et des adultes	4 772,2 M$
1.2	Subvention pour le service de la dette	357,0 M$

1.1 Subventions de fonctionnement pour la formation générale des jeunes, la formation générale des adultes et la formation professionnelle des jeunes et des adultes (4 772,2 M$)

Les subventions de fonctionnement sont versées aux commissions scolaires sur la base du mode d'allocation des ressources. Les allocations qui leur sont consenties sont très majoritairement déterminées suivant des critères objectifs et calculés sur une base a priori. À ces allocations de base, s'ajoutent des allocations supplémentaires et spécifiques.

1.1.1 Allocation de base pour les activités éducatives des élèves jeunes

L'allocation de base pour les activités éducatives des élèves jeunes sert à financer les enseignants et le coût du matériel didactique, le soutien à l'enseignement, les services complémentaires, la gestion des écoles et le perfectionnement des personnels concernés par ces services.

L'essentiel de cette allocation est déterminé comme suit:

a) Le nombre d'élèves reconnus par le ministère de l'Éducation fréquentant les niveaux maternelle 5 ans, primaire et secondaire multiplié par le montant par élève des enseignants;

b) Le nombre d'élèves reconnus par le ministère de l'Éducation multiplié par le montant par élève pour les dépenses éducatives autres que les enseignants.

1.1.2 Allocation de base pour les activités éducatives des élèves adultes en formation générale

L'allocation de base pour les activités éducatives des élèves adultes en formation générale sert à financer les enseignants et le matériel didactique, le soutien à l'enseignement, les services d'accueil et d'aide, la gestion des centres d'éducation des adultes, le développement pédagogique et le perfectionnement des personnels concernés par ces services.

L'allocation de base est formée des quatre enveloppes budgétaires suivantes:

- une enveloppe budgétaire ouverte pour les élèves adultes de 16 à 18 ans;
- une enveloppe budgétaire fermée pour les élèves adultes;
- une enveloppe budgétaire ouverte pour les élèves adultes admis au programme *SPRINT* (subvention et prêt aux travailleurs et travailleuses) de la Société québécoise du développement de la main-d'oeuvre;
- une enveloppe budgétaire fermée pour l'activité de formation «francisation de la population adulte allophone».

Pour chacune des enveloppes budgétaires, l'allocation reconnue est générée par l'application des paramètres d'allocation (taux pour les ressources enseignantes, les ressources matérielles et les ressources pour les autres personnels) propres à chaque commission scolaire aux déclarations de fréquentation reconnues aux fins de financement.

1.1.3 Allocation de base pour les activités éducatives des élèves jeunes et adultes en formation professionnelle

L'allocation de base pour les activités éducatives des élèves jeunes et adultes en formation professionnelle sert à financer le coût des enseignants, du matériel didactique et de la matière première, l'utilisation des machines, appareils et outillages ainsi que les fournitures nécessaires à l'exécution des travaux pratiques, les services complémentaires, les services d'appui à la formation, la gestion des écoles et des centres d'éducation des adultes et le perfectionnement des personnels concernés par ces services.

L'allocation consentie à chaque commission scolaire est fonction de sa clientèle sanctionnée et de montants par élève pour les enseignants, les ressources matérielles et les ressources de soutien. Ces montants par élève, propres à chaque commission scolaire, tiennent compte de la lourdeur des programmes de formation dispensés.

1.1.4 Allocation de base pour les activités administratives

L'allocation de base pour les activités administratives sert à financer les activités ayant lieu au siège social de la commission scolaire (administration générale, informatique, administration des ressources humaines, gestion financière, administration du transport scolaire, etc.).

L'essentiel de l'allocation est établi en multipliant le nombre d'élèves par un montant par élève propre à chaque commission scolaire. Ce montant par élève est fonction des particularités de chaque commission scolaire et est déterminé à partir d'indices et de facteurs de pondération liés à la lourdeur des clientèles et à la taille de l'organisme.

1.1.5 Allocation de base pour les équipements

Les dépenses pour les équipements concernent l'entretien et la réparation, l'entretien ménager, la consommation énergétique, la location d'immeubles, la protection et la sécurité. Elles tiennent compte à la fois du coût des personnels et des autres coûts reliés à ces éléments.

La majorité des dépenses pour les équipements sont financées par les commissions scolaires à même leurs taxes scolaires. L'allocation du Ministère ne couvre que les dépenses relatives aux superficies excédentaires ou déficitaires des commissions scolaires, c'est-à-dire, l'écart entre la superficie réelle et une superficie normée.

1.1.6 Allocations supplémentaires et spécifiques

Les allocations supplémentaires et spécifiques sont principalement reliées à des politiques gouvernementales ou ministérielles dont, notamment, le plan d'action sur les drogues et le milieu de l'éducation et le plan d'action sur la réussite éducative. Chacune des mesures concernées a ses propres paramètres d'allocation.

1.2 Subvention pour le service de la dette (357,0 M$)

La subvention pour le service de la dette défraie les coûts reliés aux emprunts à long terme des commissions scolaires. Les emprunts à long terme sont effectués en regard des activités d'investissements. En 1993-1994, les dépenses d'investissements sujettes à un financement à long terme sont de l'ordre de 475,4 millions $.

Les coûts reliés aux emprunts à long terme concernent principalement le versement à un fonds d'amortissement, le paiement d'intérêts, les honoraires annuels du fiduciaire et les échéances de capital à refinancer au cours de l'exercice.

2. SUBVENTIONS DES AUTRES MINISTÈRES ET DES AUTRES ORGANISMES PARAGOUVERNEMENTAUX (481,2 M$)

Les subventions des autres ministères et des organismes paragouvernementaux regroupent les subventions suivantes:

2.1 Subvention du ministère des Transports;
2.2 Subvention du ministère de la Sécurité du revenu et de la Société québécoise du développement de la main-d'oeuvre;
2.3 Autres subventions.

2.1 Subvention du ministère des Transports (410,8 M$)

Le ministère des Transports du Québec subventionne le transport scolaire du matin et du soir. Cette subvention couvre la grande majorité des dépenses à ce titre. Elle est calculée en fonction d'une base historique du nombre d'élèves transportés. Les parents sont souvent appelés àcontribuer pour le transport du midi.

2.2 Subvention du ministère de la Sécurité du revenu et de la Société québécoise du développement de la main-d'oeuvre (57,2 M$)

Les subventions provenant du ministère de la Sécurite du revenu et de la Société québécoise du développement de la main-d'oeuvre concernent les programmes destinés à la main-d'oeuvre dont principalement les achats directs (formation générale et formation professionnelle temps plein), la formation sur mesure en établissement et le recyclage et perfectionnement (formation professionnelle à temps partiel). Ces subventions couvrent les dépenses au chapitre des ressources humaines (salaires) et des ressources matérielles.

2.3 Autres subventions (13,2 M$)

Les autres subventions correspondent principalement aux subventions tenant lieu de taxes (Société immobilière du Québec et gouvernement du Canada), aux subventions versées par le ministère de la Santé et des Services sociaux, suite à des ententes conclues avec ce dernier, et aux subventions versées par le ministère des Communautés culturelles et de l'Immigration pour la francisation des immigrants.

3. TAXES SCOLAIRES ET SUBVENTION DE PÉRÉQUATION (780,1 M$)

3.1 Taxes scolaires (703,6 M$)

Les commissions scolaires peuvent imposer une taxe scolaire basée sur l'évaluation uniformisée des immeubles imposables selon les rôles d'évaluation des municipalités.

À moins d'avoir reçu par référendum l'approbation de ses électeurs, une commission scolaire ne peut imposer une taxe dont le revenu est supérieur au «Produit maximal de la taxe», tel que défini par la Loi sur l'instruction publique, ou dont le taux excède 0,35 $ du 100,00 $ d'évaluation.

Le «Produit maximal de la taxe» est établi selon un montant de base et un montant par élève pondéré, lesquels évoluent en fonction d'un règlement annuel du gouvernement.

3.2 Subvention de péréquation (76,5 M$)

La subvention de péréquation est établie à la suite de la détermination de l'insuffisance des ressources fiscales d'une commissions scolaire.

D'abord, un montant est calculé pour chaque commission scolaire à partir d'un montant de base et d'un montant par élève appliqué sur le nombre d'élèves pondérés: «Produit maximal de la taxe». Si le produit potentiel d'une taxe à 0,35 $/100,00 $ d'évaluation est inférieur au «Produit maximal de la taxe», la subvention de péréquation vient combler l'écart.

4. AUTRES REVENUS (453,4 M$)

Les autres revenus découlent, notamment, d'un certain nombre de tarifications dont les principales concernent les frais chargés pour les services alimentaires, les services de garde et la location de locaux à des organismes municipaux ou autres.

QUÉBEC

Au Québec, les années soixante ont marqué un virage important dans l'histoire de l'éducation et incidemment du financement des commissions scolaires. Les Québécois, voulant assurer leur développement économique, ont consenti alors un effort financier important pour développer leur système d'éducation et se préparer, par le fait même, une main-d'oeuvre compétitive.

À cette époque, les commissions scolaires assuraient 70 p. 100 de leur financement par les revenus d'une taxe scolaire qu'elles imposaient localement. Les subventions gouvernementales représentaient, à ce moment, 30 p. 100 de leurs ressources financières.

En 1974-1975, suite à d'autres changements apportés par la loi, l'auto-financement des commissions scolaires est passé à 29,7 p. 100.

En 1979, la Loi sur la fiscalité municipale fut adoptée. Le pouvoir de taxation des commissions scolaires a été limité à 0,25 $ du 100,00 $ d'évaluation ou à 6 p. 100 de la dépense nette. Cette loi a restreint le champ de taxation des commissions scolaires au profit des municipalités.

Avec le transfert aux municipalités de la presque totalité du champ d'impôt, les commissions scolaires sont devenues, par le fait même, tributaires de l'État. La proportion de leur budget couvert par le financement local est devenue minime. Le gouvernement contribuait pour 95 p. 100 des dépenses des commissions scolaires.

En 1990-1991, l'implantation d'un nouveau régime fiscal vient conférer aux commissions scolaires, un accroissement réel de leurs responsabilités en leur confiant la pleine responsabilité de la gestion et du financement des équipements scolaires. Ce changement au régime fiscal fut assorti d'une modification de la formule de péréquation accordée aux commissions scolaires pour la rendre plus équitable. De plus, un ajout monétaire fut prévu pour pallier aux pertes nettes de revenus de certaines commissions scolaires.

À la suite de ces ajustements, une commission scolaire ne peut imposer une taxation dont le revenu est supérieur au «Produit maximal de la taxe» (établi en fonction d'un montant de base et d'un montant par élève pondéré) ou dont le taux excède 0,35 $ du 100,00 $ d'évaluation. La contribution du gouvernement fut alors portée à 85 p. 100 des dépenses des commissions scolaires.

Également, depuis 1990-1991 les commissions scolaires se sont de plus en plus prévalues des dispositions de la Loi sur l'instruction publique leur permettant de tarifer certains services. C'est ainsi que, en 1993-1994, l'effet de cet accroissement de tarification conjugué à l'accroissement des revenus des taxes scolaires font en sorte que la contribution du gouvernement aux dépenses des commissions scolaires est d'environ 83 p. 100.

La méthode de calcul des subventions du ministère de l'Éducation a également évolué au cours des ans. Un changement fondamental a été introduit en 1986-1987, à la suite de divers travaux réalisés avec les représentants des organismes scolaires en vue de mieux adapter le mode d'allocation des ressources aux responsabilités éducatives et administratives des commissions scolaires. Les principes qui sous-tendent ce mode d'allocation des ressources sont les suivants:

- La responsabilisation des commissions scolaires;
- L'équité;
- La transparence.

QUEBEC

SCHOOL BOARD FUNDING IN QUEBEC 1993-94

HIGHLIGHTS RELATING TO SCHOOL BOARD FUNDING

- The school boards are established in accordance with the Quebec Education Act. They are administered by a Council of Commissioners. The Commissioners are elected by qualified voters.
- The school boards provide preschool and elementary and secondary education services.

Preschool:	Preschool education generally lasts one school year (5-year-old kindergarten). In some cases, it starts earlier (4-year-old kindergarten).
Elementary:	Elementary education covers 6 school years.
Secondary:	Secondary education comprises general training for young people, general training for adults and vocational training for young people and adults. General secondary education takes 5 school years.

By law, a child must attend school until the age of 16.

- In 1993-94, the school boards' enrolment totalled approximately 1,136,400 students.

4-year-old kindergarten	7,600
5-year-old kindergarten	81,500
Elementary	529,400
General secondary — young people	421,100
General secondary — adults (in full-time equivalents)	57,800
Vocational secondary — young people and adults (in full-time equivalents)	39,000

In addition to the total number of students in the school boards' public system, there are approximately 103,600 students in the private system.

- In 1993-94, the school boards' public system comprised 158 organizations:

Catholic	137
Protestant	18
Multidenominational	3

- The school boards' 1993-94 financial reports, prior to analysis by the Department, show total revenues of $6,843.9 million:

1.	Grants from the Department of Education	$5,129.2 M
2.	Grants from other departments and paragovernmental organizations	481.2 M
3.	School taxes and equalization grant	780.1 M
4.	Other revenues	453.4 M

1. GRANTS FROM THE DEPARTMENT OF EDUCATION ($5,129.2 M)

Grants from the Department of Education comprise the following:

1.1	Operating grants for general training for young people, general training for adults and vocational training for young people and adults	$4,772.2 M
1.2	Debt service grant	357.0 M

1.1 Operating grants for general training for young people, general training for adults and vocational training for young people and adults ($4,772.2 M)

Operating grants are paid to the school boards in accordance with the resource allocation modalities. The allocations made to them are largely established in accordance with objective criteria and are calculated on an a priori basis. In addition to these basic allocations, there are supplementary and targeted allocations.

1.1.1. Basic allocation for education activities for young students

The basic allocation for education activities for young students is used to pay for

teachers and the cost of instructional material, education support, auxiliary services, school management and the development of employees involved in these services.

Basically, this allocation is calculated as follows:

(a) The number of students recognized by the Department of Education as attending at the 5-year-old kindergarten, elementary and secondary levels multiplied by the amount per student for teachers;

(b) The number of students recognized by the Department of Education multiplied by the amount per student for education expenses other than teachers.

1.1.2. Basic allocation for education activities for general training adult students

The basic allocation for education activities for general training adult students is used to pay for teachers and for instructional material, education support, admission and support services, management of adult education centres, instructional development and the development of employees involved in these services.

The basic allocation comprises the following four resource envelopes:

- an open envelope for adult students 16 to 18 years of age;
- a closed envelope for adult students;
- an open envelope for adult students accepted into the SPRINT program (grants and loans to workers) operated by the Société québécoise du développement de la main-d'oeuvre;
- a closed envelope for the provision of French-language instruction for the allophone adult population.

For each envelope, the allocation allowed is determined by the application of the allocation parameters (rates for teaching resources, physical resources and resources for other staff) established for each school board to the reports on official enrolment for funding purposes.

1.1.3. Basic allocation for education activities for young students and adults taking vocational training

The basic allocation for education activities for young students and adults taking vocational training is used to pay for the cost of teachers, instructional material and raw material, the use of machinery, materials and equipment and supplies required for practical activities, auxiliary services, education support services, school and adult education centre management and the development of employees involved in these services.

The allocation made to each school board is dependent on the eligible enrolment and the amounts per student for teachers, physical resources and support resources. These amounts per student, which are established for each school board, take into account the actual training program load.

1.1.4. Basic allocation for administrative activities

The basic allocation for administrative activities is used to pay for activities conducted at the school board's headquarters (general administration, data processing, human resources management, financial management, administration of student transportation and so on).

The amount of the allocation is determined by multiplying the number of students by an amount per student established for each school board. This amount per student takes into account each school board's particular circumstances and is calculated using indices and weighting factors related to the size of the enrolment and the size of the organization.

1.1.5. Basic allowance for facilities

The expenditures for facilities comprise maintenance and repair, custodial services, energy consumption, leasing of immovables, protection and security. Both the cost of staff and other costs related to these components are taken into account.

Most of these items are paid for out of the school boards' own school taxes. The Department's allocation covers only expenditures relating to excess space or space shortages, that is, the differences between the actual space and the standard allowable space.

1.1.6. Supplementary and targeted allocations

Supplementary and targeted allocations are primarily related to government or departmental policies, for example, the action plan on drugs in schools and the action plan on school achievement. Each of the measures concerned has its own allocation parameters.

1.2 Debt service grant ($357.0 M)

The debt service grant defrays the costs related to the long-term borrowings of the school boards, which are used for capital activities. In 1993-94, capital expenditures subject to long-term financing totalled $475.4 million.

The costs related to long-term borrowing primarily entail payment to a sinking fund, the payment of interest, annual trustee fees and schedules for capital refinancing during the year.

2. GRANTS FROM OTHER DEPARTMENTS AND PARAGOVERNMENTAL ORGANIZATIONS ($481.2 M)

Grants from other departments and paragovernmental organizations comprise the following:

2.1 Grant from the Department of Transportation;
2.2 Grant form the Department of Income Security and the Société québécoise du développement de la main d'oeuvre;
2.3 Other grants.

2.1. Grant from the Department of Transportation ($410.8 M)

The Quebec Department of Transportation subsidizes morning and afternoon transportation for students. This grant covers the majority of expenditures in this area. It is calculated using historical data on the number of students transported. Parents are often asked to contribute towards noon-hour transportation.

2.2. Grant from the Department of Income Security and the Société québécoise du développement de la main-d'oeuvre ($57.2 M)

The grants from the Department of Income Security and the Société québécoise du développement de la main-d'oeuvre are related to the programs aimed at workers including primarily direct purchases (full-time vocational training and general training), customized classroom training and retraining and development (part-time vocational training). These grants cover expenditures relating to human resources (salaries) and physical resources.

2.3. Other grants ($13.2)

The other grants are primarily related to grants in lieu of taxes (Société immobilière du Québec and the Government of Canada), grants paid by the Department of Health and Social Services in accordance with agreements reached with that department, and grants paid by the Department of Cultural Communities and Immigration for French-language instruction for immigrants.

3. SCHOOL TAXES AND EQUALIZATION GRANT ($780.1 M)

3.1 School taxes ($703.6 M)

School boards may levy a school tax based on the standardized assessment of taxable immovables according to the municipalities' assessment rolls.

Unless it has received the approval of its electors by means of a referendum, a school board cannot levy a tax greater than the maximum yield of the tax as defined by the Education Act or at a rate exceeding $0.35 per $100 assessment.

The maximum yield of the tax is established using a base amount and a weighted amount per student, which the government sets by regulation each year.

3.2 Equalization grant ($76.5 M)

The equalization grant is established once it has been determined that a school board has insufficient tax resources.

First an amount is calculated for each school board according to a base amount and an amount per student applied to the weighted number of students: the maximum yield of the tax. If the potential yield of a tax at $0.35/$100 assessment is less than the maximum yield of the tax, the equalization grant makes up the difference.

4. OTHER REVENUES ($453.4 M)

Other revenues are derived primarily from charges levied for services, the main ones being food services, day care services and the leasing of facilities to municipal or other organizations.

QUEBEC

A significant change occurred in education policy in Quebec during the sixties, and this had an impact on school board funding. To promote their economic development, Quebeckers approved of a major financial effort to develop their education system with a view to establishing a competitive work force.

At that time, the school boards obtained 70% of their funding from a school tax they levied locally. Government grants represented 30% of their financial resources.

In 1974-75, as a result of further legislative changes, the self-funding of the school boards dropped to 29.7%.

In 1979, the Act respecting municipal taxation was adopted. The school boards' power to levy taxes was limited to $0.25 per $100 assessment or 6% of net expenditures. Under this Act, the tax field of the school boards was reduced and that of the municipalities was increased.

With the transfer of almost the entire tax field tot he municipalities, the school boards became dependent on the government. The proportion of the budget covered by local funding became minimal. The government covered 95% of the school boards' expenditures.

In 1990-91, the implementation of a new tax system led to a real increase in the school boards' responsibilities by making them fully responsible for management and funding of school facilities. This change in the tax system was accompanied by an amendment of the equalization formula to make it fairer. In addition, an injection of funds was provided for to make up for the net revenue losses experienced by some school boards.

As a result of these adjustments, a school board cannot levy a tax that brings in revenue exceeding the maximum yield of the tax (established on the basis of a base amount and a weighted amount per student) or at a rate exceeding $0.35 per $100 assessment. The government's contribution now accounts for 85% of school board spending.

In addition, since 1990-91, the school boards have increasingly taken advantage of the provisions of the Education Act whereby they may charge for certain services. In 1993-94, as a result of this increase in charging fees for services coupled with the higher school tax revenues, the government's contribution to school board funding amounted to 83%.

The method of calculating the Department of Education grants also changed over the years. A basic change was introduced in 1986-87 following collaboration with representatives of school bodies to adapt the resource allocation modalities to the school boards' education and administrative responsibilities. The underlying principles are as follows:

- empowerment of the school boards;
- fairness;
- transparency.

SASKATCHEWAN

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I. GENERAL BACKGROUND

- There were 122 school divisions in Saskatchewan, including 22 Roman Catholic Separate divisions. Enrolment in 1993-94 totalled 196,000 students in the public Kindergarten to Grade 12 system. The range in enrolments in these school divisions varied greatly from 12 pupils to 25,000.
- All school divisions, with the exception of four large comprehensive high school divisions, are fiscally independent. The comprehensives derive most of their revenue from tuition fees from other school divisions.
- There were 51 independent private schools with a total student enrolment of 3178. Public funding is only provided for the 8 independent historical high schools, which were established in the early 1900s when public high schools were not always available.
- The Education Act was amended in August, 1993 to enable the establishment of Francophone school boards. (In 1994-95, 8 francophone school divisions were in existence.)
- The primary revenue sources for school divisions include provincial funding and local support from property taxes. Tuition fee arrangements and other sundry revenues provide additional funds.

Provincial

- The provincial government funded 43% of total K-12 expenditures in Saskatchewan. The provincial proportion of funding has decreased steadily from 47% in 1989 to its current level. Consequently revenues from local taxes increased from 45% in 1989 to 49% in 1993. Other sources, tuition fees and sundry revenue, have consistently provided about 8% of revenues.
- A total of $397.9 million was provided in 1993-94 for K-12 education through the Foundation Grant Formula, capital funding, the Education Development Fund, and private school funding. An additional $110.3 million was provided for teachers' pensions and benefits, although $69.0 million was for previous service.
- The Foundation Grant Formula was implemented in 1970 and the formula was designed to ensure that all children receive a basic quality of education, regardless of where they live. Funding is based on school divisions' enrolment and their ability to raise local revenue through property taxation. School boards that have a greater ability to raise local revenue receive proportionately less provincial funding and vice versa.
- The objectives of the foundation grant formula are:
    1. To promote equality of educational opportunity and equity in education property tax.
    2. To protect school divisions against circumstances beyond their control.
    3. To promote efficient use of limited resources.
    4. To preserve the authority of boards of education to exercise discretion in decision-making.

- No court challenges to the existing formula are pending.
- Special education funding and transportation funding are under review.

Local

- School divisions levy their own mill rates on taxable assessed residential and non-residential property. The taxes are collected by local government on behalf of the school divisions. Local property tax assessments totalled $6,807.9 million in 1994. The mill rates ranged from 34.50 to 82.5 and the weighted average mill rate for the province was 72.72. The weighted average mill rate for 1993 was 71.62.
- Other sources of revenue for school divisions include tuition fees from other school divisions and the federal government.

Funding Summary, 1993-94

Total Provincial School Aid		$438.0 million
Grants in aid		397.9 million
Foundation grant	356.4 million	
Capital funding	39.2 million	
Education Development Fund	2.3 million	
Teacher retirement contributions and benefits		40.1 million

II. THE BASIC SUPPORT PROGRAM

Funding in 1993-94: Funding for the operating grant program totalled 356.4 million in 1993-94. However, this includes transportation, adjustment factors, recognized incremental rates and other recognized expenditures.

Nature of Program: The provincial government provides operating funding to school divisions through the Foundation Grant Formula administered by Saskatchewan Education, Training and Employment.

The size of grants is determined by the school division's need and ability to pay. The basic formula is:

Grant = Recognized Expenditures - Recognized Revenue

where:

Recognized Expenditures = (Enrolment x Basic Rate) + Adjustment for Special Factors
+ Incremental Rates + Other

Recognized Revenue = Taxable Assessment x Equalization Factor

However, in reality recognized expenditures and the level of the grants are determined on a political basis. Recognized expenditures may be as much as 20% below actual costs. The equalization factor is calculated after the granting level is established and the recognized expenditure levels are decided.

Allocation Units: Funding (recognized expenditures) is provided on a per pupil basis and varies with grade level and whether the school is in a rural or an urban division. Units are based on previous year counts. Enrolments are calculated as of September 30 and reported in the Principals' September Statistical Reports. Increased enrolments of high-cost special needs pupils are recognized monthly. Increases in enrolment greater than 1% as measured on March 1 are eligible for consideration.

Local Fiscal Capacity: Elected school boards along with school division management set their property tax rates at the level they choose. However, they are somewhat constrained by their historical property tax rates and the rates of other school divisions.

How Formula Operates: Recognized expenditures can be considerably below the actual costs of education. The formula does not consider the costs a school division actually encounters.

The basic program is expected to cover expenditures in school divisions with respect to administration, instruction, plant operation and maintenance, non-capital furniture and equipment, non-capital renovations and repairs, current interest expenses, bank charges, and special events transportation. The basic program is determined by the following per pupil allocations:

	*Major Urban**	*Rural and Other*
Kindergarten (.5 day)	$1,555	$1,640
Elementary	3,007	3,156
Middle	3,224	3,383
Secondary	3,714	3,883

* with enrolments in excess of 2000 pupils

School divisions with home-based education students are eligible for 50% of the per pupil basic rate. In 1993-94, there were 725 home schoolers. *(In 1994-95, this number increased to 1021.)*

In addition to the basic per pupil grant, there are adjustment factors, incremental rates, transportation and room and board allowances, shared services, second language programs, northern programs and other recognized expenditures.

Provincial Share: The provincial share of the educational costs is determined by the perceived availability of funds in the provincial coffers and the priority the province places on education in a particular year. For example, the funding levels are set relative to the previous years funds. In 1992-93 there was a -2% decrease, 1993-94 another -2% decrease, 1994-95 a -4% decrease, 1995-96 a 0% change and for 96-97 there is a plan for a 2% increase. Because of the funding formula and the importance of changes in enrolment, varying levels of increase or decrease in grants are generated for school divisions. For example, from 1992-1993 to 1993-1994 changes in operating grants for individual school divisions ranged from -40% to +13%.

Local Share: The provincial government does not recognize the actual tax rate that is charged, but determines an equalization factor that is used for the calculation of recognized revenue. This equalization factor (or computational mill rate) is actually determined after the government decides how much money it is willing to spend on K-12 education. If the province chooses to spend less on grants, the equalization factor is increased. The equalization factor has increased steadily over the past four years:

1992-93	62.0
1993-94	63.4
1994-95	65.6
1995-96	66.4

The same computational mill rate is used for every jurisdiction.

Adjustments for Special Factors:

The Declining Enrolment Factor assists school divisions that experience enrolment declines for two consecutive years or more. It provides school divisions with a financial cushion while they adjust to the reduced enrolment. The basic funding program is increased based on 60% of the enrolment drop between the present year and previous year plus 40% of the enrolment drop between the previous year and the year previous to that one.

The Sparsity Factor assists rural school divisions that have relatively low enrolment levels over rather large geographical areas. The rationale for this factor is that the cost of providing the education service increase as the density of students in a school division decreases. The total funding under the sparsity factor has been reduced. In 1993, the maximum percentage adjustment was 4.4%. The maximum percentage adjustment for 1994 was 3.59% and for 1995 it will be 3.29%.

The Small School Factor assists rural school divisions that operate in remote locations with low enrolments per grade. Funding recognition is provided when enrolment in any grade is less than 20 and is capped at 10 pupils per grade. The formula to determine this adjustment involves:

	Factors (maximum of 10)	*Recognition**
Kindergarten (.5 day)	20 - (enrolment in each grade)	$330
Elementary	20 - (enrolment in each grade)	$525
Middle	20 - (enrolment in each grade)	$560
Secondary	20 - (enrolment in each grade)	$600

* a per pupil rate

A distance calculation also exists for this component. Funding remains at 100% where school are greater than 30 kilometres apart and decreases to 35% where school are less than 10 kilometres apart.

Enrolment increases greater than 1% are also recognized. If enrolment in a school division increases by more than 1% from September to March in a school year, the grant may be recalculated with respect to any enrolment increase in excess of 1%. The school division must request the recalculation. School divisions experiencing enrolment increases in excess of 1% for two consecutive years will be given recognition for the first 1% increase that was not recognized in the first year.

Recognized Incremental Rates:

Incremental rates are recognized conditional funds for specified programs and are in addition to the basic per pupil rates.

Funding for comprehensive high schools is set at $253 per pupil. This funding recognises the more extensive nature of the programming at these schools.

School divisions must provide appropriate education services for their students with special learning needs. The funding recognition of special needs students is described under Section VI - Special Education.

Funding for transportation is found within the foundation grant and is available for the transportation of rural, urban, and special education students, as well as transportation by parents, and for room and board. A full description is provided under Section III.

Other:

For school divisions in the north where the enrolment is less than 600 pupils, a northern allocation is calculated. The formula for this factor is (600 - enrolment) x $275.

Other expenditures that may be recognized within the foundation grant include approved rental of facilities such as classrooms, halls and gymnasiums, unexpectedly high expenditures on substitute teachers, and any other amounts as determined by the Minister. The maximum rental rates are $293 per classroom, and actual expenditures of halls and gymnasiums to a maximum for each school of the lesser of $52 per pupil enrolled or $8863 per year.

Additional recognition is given for substitute teacher costs when teachers are absent on sick leave, if these costs are in excess of 2 mills calculated on the total assessment of the school division. As well, the cost of employing a substitute teachers when the regular teacher is attending a seminar or workshop approved by the department is recognized.

Aid Distribution Schedule: The funding for January, February and March is provided in a lump sum during the month of April. Consequently school divisions are required to finance these three months of operation from reserves or from borrowed capital. For the other 9 months, funding is received in the following month.

Districts Off Formula: There are no districts that receive $0 aid because their fiscal capacity is too high. Operating grants ranged in size from $13,000 to $24.1 million.

III. TRANSPORTATION

Conditional funding for transportation is recognized within the foundation grant and is available for the transportation of rural, urban, and special education students, as well as transportation by parents, and for room and board.

Funding in 1993-94: Recognized transportation expenses were $67.1 million. While $57.5 million was for rural transportation, $3.6 million was for special education, and $6.0 was for other transportation.

Description: Rural transportation is recognized on a student and per kilometre basis (actual kilometres travelled, return trip) regardless of the actual expenditure for the service. The rates are a maximum $133 per pupil per year plus a maximum $149 per daily kilometre per year. However, if parents transport the child to school, recognition of allowances paid to parents is based on $0.2561 per vehicle per kilometre. Arrangements must be approved by the department.

Urban transportation is available for the transportation of kindergarten to Grade 8 pupils where there is no school in the local attendance area, or for a second language program. All transportation must be approved by the department. A maximum of $416 per pupil transported per year is provided for transporting students in urban divisions. For part-time student transportation, recognition is based on actual costs to a maximum of $2.08 per pupil per day. Part-time transportation is recognized when pupils are transported to participate in approved programs outside of their school.

A maximum of $2260 per pupil per year is recognized for transporting high cost special education pupils. Part-time arrangements (provision of services for less than a full academic year) for special needs pupils are based on actual costs to a maximum of $226 per month.

In northern school divisions, local transportation is recognized at the same rates as for non-city school divisions. However, recognition of travel by air is $0.9752 per pupil per kilometre.

Room and board allowances are recognized where a school division pays a room and board allowance for a pupil who resides elsewhere than at home and who receives educational services outside that pupil's home attendance area. Costs are recognized to a maximum of $420 per month for a high-cost disabled pupil and $304 per month for all other students.

Extent of Participation: All school divisions are eligible for transportation recognition.

IV. CAPITAL OUTLAY AND DEBT SERVICE

State Aided Programs

Saskatchewan statutes, The Education Act (Part V- Section 305), the Government Organization Act (Section 18) and The School Grant Regulations 1990 (Part VII & VIII), define the details of the School Capital Expenditures and Funding.

Capital Outlay

Funding in 1993-94: Grants to school construction totalled $38.2 million in 1993-1994. The 1994-95 estimate is for $37.2 million for school capital, composed of $21.3 million for new capital projects and $15.9 million for annual interest costs on debt for old and new projects.

Description: The Department of Education, Training and Employment pays approximately 65% of school construction costs for approved projects. The school division share of capital projects ranges from 14% for less advantaged boards to 50% for more advantaged boards. A utilization factor is also incorporated into the funding formula. School divisions with less than 80% utilization within a project area are required to pay a larger share of the capital costs.

School divisions may choose to finance all or part of the project through loans or debentures approved by the Saskatchewan Municipal Board (S.M.B.), or with funds that have accumulated in local reserves or surpluses. To assist in the assurance of financial integrity in local governments in Saskatchewan, approval of the Municipal Board is required on any debt that extends beyond the current fiscal year.

Approval-in-principle gives school divisions up to two years' notice of a project approval. As part of the approval procedure, divisions are required to submit annually a five-year projection of capital requirements.

Approvals are granted in three-year cycles. As funds for school projects can be released only in the current fiscal year, approvals for the second and third years are issued "in principle" only. During this period, school divisions may undertake design work but are not reimbursed for design fees until final approval is issued.

Funding for repairs such as roof projects over $5000 are considered part of capital funding.

Province Share: The provincial share of the capital outlay is the difference between the agreed upon cost and the base share.

Local Share: The base share (board's share) is calculated using the following formula:

$$BS = (0.7 + UF) \times [(0.5 \times APF) + 0.25]$$

where:

BS is the base share;
UF is the utilization factor; and
APF is the ability to pay factor

The constants of 0.5 and 0.25 help to minimize the impact of the formula on those jurisdictions whose APF deviates from the average of 0.5.

The constant of 0.7 is used to affect the proportion of the base share that the school divisions are required to provide. In 1990 this constant was 0.4. Consequently the base share for the school divisions has increased dramatically (approximately 70%).

Although boards are required to provide more funding than ever before, the approval of projects is not guaranteed. As the budget is determined at the political level, there never is enough money and school boards may have to wait several years for approval of a project.

The utilization factor is calculated by subtracting the quotient of total recognized usable area divided by the total actual usable area from a constant of .8. The utilization factor is deemed to be 0 when the calculated utilization factor is negative. The application of the utilization factor increases the school board's share of the capital project.

Extent of Participation: Some jurisdictions are required to have building projects every year, while others have not had a major building project nor will have for the foreseeable future.

Debt Service

Funding in 1993-94: Grants to school construction totalled $38.2 million in 1993-1994. The 1994-95 estimate is for $37.2 million for school capital, composed of $21.3 million for new capital projects and $15.9 million for annual interest costs on debt for old and new projects.

Description:

Loans. Subject to approval of the S.M.B., a school division may take out a loan to finance all or part of the long-term debt retirement incurred for a capital project. The term of the loan and interest shall be determined by the S.M.B.

If a S.M.B. approved loan is used as part of the department's share of long-term debt retirement, the department will reimburse the school division for the principal and interest costs of the loan over its full term.

Debentures. Subject to approval of the S.M.B. a school division may issue debentures to finance all or part of the long-term debt retirement incurred for a capital project. The minimum amount of debentures is $200,000 and the maximum amount is determined by the S.M.B. The term of the debenture issue is fixed at ten years. Interest on debentures is determined by the S.M.B.

If debentures are used as part of the department's share of long-term retirement, the department will recognize the division for the principal and interest costs of the debenture issue as well as the additional costs associated with the printing and marketing of the issue.

Reserves or Surpluses. In lieu of debentures or capital loans, a school division may choose to use funds that it has accumulated in its own local reserve or surplus as a portion of the required funding for a capital project. If this occurs, the government replenishes the capital reserves or surpluses used.

The repayment of reserves begins in the year following the year in which final funding is approved. The term of the replenishment is one year for each $10,000 with a minimum of three years and a maximum of five years. Where the reserve is less than the $10,000 the term will be one year.

Interest on the reserve is set at 2% below the prime lending rate at the time of final project approval.

V. TEACHER RETIREMENT

Funding in 1993-94:

		Millions
Teachers' Pensions and Benefits (Total)		$110.3
Teachers' Superannuation Commission — Administration		1.1
Pensions and Cost of Living		93.3
Government matching contributions	24.3	
Additional government contribution (past service)	69.0	
Saskatchewan Teachers' Retirement Plan		12.0
Group Life Insurance		0.9
Dental Plan		2.9

Description: There are two pension plans for teachers in the province. The Saskatchewan Teachers Retirement Plan covers all teachers and former teachers who had an interest in the Annuity Fund as of June 30, 1991 and teachers employed for the first time in Saskatchewan after July 1, 1991. The Teachers Superannuation Plan covers those teachers who began teaching in Saskatchewan prior to July 1, 1980 and who were members of the Superannuation Plan on July 1, 1991. The provincial government provides matching contributions to both plans.

The two pension plans are administered by different groups. The Saskatchewan Teachers Retirement Plan is administered by the Saskatchewan Teachers' Federation through the Board of Directors, the Plan Manager and other assistants as required for its operation.

The Teachers' Superannuation Commission administers the Teachers Superannuation Plan, the Teachers' Disability Benefits Plan, the Teachers' Life Insurance (Government Contributory) Act; and the Teachers' Dental Plan. The Commission consists of seven members — three teacher representatives nominated by the Executive of the Saskatchewan Teachers' Federation, three government representatives, and a chairperson chosen by the representatives. The Commission administers the delivery of teacher benefit programs under the following legislation:

The Teachers' Superannuation and Disability Benefits Act provides superannuation to approximately 19,000 teachers, including part-time and substitute teachers.

The Teachers' Life Insurance (Government Contributory) Act provides life insurance benefits to approximately 15,900 participants.

The Teachers' Dental Plan Act provides dental benefits to approximately 48,000 teachers and dependants.

Administrative expenses, total dental benefits and 50% of teacher insurance premiums are funded by the provincial government. Pension costs are shared by the government and the teachers.

Social Security

The local school districts are responsible for the employers' contributions to unemployment insurance, and the Canada Pension Plan.

VI. SPECIAL EDUCATION

Funding in 1993-94: The funding recognition for special education is a part of the operating grant. The amount of funding for this program was $39.0 million. Gifted students are included in this factor.

Special Education		$39.0 million
High Cost 1	5.9	
High Cost 2	6.4	
Special Needs Program Fund	26.6	

Description: Special education funding is provided through two programs, the designated disabled pupil funding and the special needs program funding

The designated disabled pupil funding (DDPF) consists of two levels. Level I is for students who are orthopedically handicapped, mentally handicapped, chronically health impaired. Level II is for more severely handicapped students who are deaf, blind and/or multiply disabled. For Level I, the recognized incremental rates are $4,454, while for Level II they are $6,644. Students eligible for designated disabled pupil funding are approved by the Special Education Unit of the department.

In the special needs program funding (SNPF), funding recognition is provided for students who have speech or language difficulties, are gifted, are slow learners, are learning disabled, or are emotionally disturbed. The funding is available to support a program rather than tied specifically to an individual child. A maximum of one unit per 200 K-12 students is recognized, conditional upon staffing to the maximum under the formula. The recognized amount per unit is $25,000.

School divisions are reimbursed for the cost of an approved technical aid for a student with a designated disability in the year of purchase, up to a maximum of $3,600.

Additional funding within the foundation formula is available for the shared services program. There are 17 shared service areas in Saskatchewan. The school divisions within each shared service area may enter into joint contracts to employ specialists (speech therapists, child psychologists) for special education. The department funds each school division its portion of a maximum of 3.5 position per shared service area. The recognized amount per staff per shared services area is $57,604.

Fractional funding is provided for those students with designated disabilities who transfer into a school division part way through the year. Fractional funding includes both the basic rates and the incremental rate at the appropriate level. It is paid on a monthly basis.

VII. COMPENSATORY EDUCATION

There are no additional programs that support compensatory education.

VIII. GIFTED AND TALENTED EDUCATION

Funding for gifted students is included in Special Needs Program Funding and is described in Section VI.

IX. BILINGUAL EDUCATION

Second language programs are recognized in the foundation grant and are cost shared with the federal government on the basis of the full-time equivalent student numbers. Implementation of a new second language program or extension of an existing program to a new grade is also given recognition. Grants are calculated using the following factors:

% of Time Used as Language of Instruction	*Recognized Rate per Full-time Equivalent Pupil*	*Implementation Year Grant Per Pupil*
0-24	$215	$43
25-49	303	86
50-100 (Type B)	395	137
75-100 (Type A)	496	191

X. OTHER CATEGORICAL PROGRAMS

The Education Development Fund (EDF) provided conditional grants to school divisions to finance new initiatives for educational improvement at the local level. The EDF, established in 1985, provided funding to three priority areas: learning resource (including the application of computer technologies), efficiency measures, and program improvement initiative. While the program was expected to finance initiatives over a 10 year period, it was eliminated due to financial constraints. All funding currently provided pertains to paying out the $9.5 million carry-over commitment which was created in the first two years of the program. In 1993-94, a total of $5.8 million was paid out.

XI. STATE AID FOR PRIVATE K-12 SCHOOLS

There were 51 independent schools with a total student enrolment of 3178. Public funding of $1837 per pupil is only provided for the 8 historical high schools. Funding for this group of schools was $1.5 million. An additional $1.7 million is provided for other schools.

A private high school is eligible for a grant if it meets the following criteria:

(a) has been in operation for a period of not less than 5 years;
(b) has had an enrolment during each of the preceding two years of operation of not less than 60 pupils in grade 9-12;
(c) meets the requirements of the Acts and Regulations with respect to courses of study, qualifications of teachers, operating schedules, and supervision by the department; and,
(d) furnishes the department with any information that the department may require with respect to finances, structure and administration of the schools.

The historical high schools are also eligible for capital grants in an amount equal to 20% of the recognized costs of the facilities.

XII. EARLY CHILDHOOD EDUCATION

No funds are provided for prekindergarten education through the education funding system.

XIII. LOCAL SCHOOL TAX REVENUE

Property Tax

Property assessment in Saskatchewan is done under the auspices of the Saskatchewan Assessment Management Agency (SAMA). The agency is administered by a Board representing the three local governments (Saskatchewan Association of Rural Municipalities, Saskatchewan Urban Municipalities Association, and the Saskatchewan School Trustees Association) and the provincial government. With the exception of the four large cities, which have their won assessors, SAMA does all assessments in the province.

The six property classes are residential, commercial, railway, pipeline, resource, and agricultural. In general, municipal, school, provincial, federal and church properties are exempt from property taxation. Most provincial and federal agencies pay a grant-in-lieu of taxes.

In 1994 the assessment base in Saskatchewan was $6,807.9 million.

The property tax system in the province is based on the assessment value of property times a locally charged mill rate. The assessed value of property is based on the 1965 base evaluation of land, business taxation, and construction replacement cost.

The Department of Education, Training and Employment recognises a provincial equalization factor when calculating Recognized Revenues in the Foundation Operating Grant, although the actual mill rate charged is decided by the local school division. In 1993-94 the equalization factor was 65.6 mills, while the actual provincial weighted average mill rate for 1993 was 71.62 and for 1994 was 72.72. School divisions generated unrecognized additional revenues equivalent to 7 mills.

As the assessment of school divisions decrease, the operating grant compensates for the loss in revenues on a one-to-one ratio up to the equalization factor. Similarly, if the assessment increases, the operating grant decreases.

XIV. TAX AND SPENDING LIMITS

Tax Limits

School divisions have no restriction on mill rates they may set. However, they are somewhat constrained by their historical property tax rates and the rates of other school divisions.

Spending Limits

There are no restrictions on spending limits.

Voter Approval of Budgets and Bond Issues

No voter approval is required for budgets or debentures, although opportunity for formal dissent is available.

XV. EARMARKED STATE REVENUE

No provincial revenues are earmarked for education.

XVI. SPECIAL TOPICS

None.

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